Office of the Auditor General of Ontario

Annual Report

2014

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

In my capacity as the Auditor General, I am pleased to submit to you the *2014 Annual Report* of the Office of the Auditor General of Ontario to lay before the Assembly in accordance with the provisions of section 12 of the *Auditor General Act*.

Bonnie Lysyk
Auditor General

Fall 2014

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Reflections

Bonnie Lysyk
Auditor General of Ontario

Introduction

It's hard to believe that over a year has gone by since I began working as the Auditor General of Ontario last September. My initial positive impression about the dedication and hard work of the members of the Legislative Assembly of Ontario—including the members of the Standing Committee on Public Accounts, deputy ministers and their staff—and boards and senior management in the broader public sector has not changed. This also holds true of the staff in my Office, and I thank them for their excellent work and contribution to this report.

As an independent Office of the Legislative Assembly, it is our job to report the results of our work to the members of the Legislative Assembly, including the members of the Standing Committee on Public Accounts, and to the citizens of Ontario. Our reports focus on areas where improvements can be made in the public sector and the broader public sector for the benefit of Ontarians. We take considerable care in the conduct of our work, the drafting of recommendations and the writing of fair, evidence-based reports.

The Standing Committee on Public Accounts, an all-party committee of the Legislature, is respected by its peers across Canada for its work in ensuring that issues in our reports are discussed and that the related recommendations are being implemented, and for generating its own reports and recommendations to ensure that people in Ontario receive value for money and benefit from government initiatives, programs and spending.

This section of our report provides a high-level commentary about our audits this year and some of our key messages.

Public Accounts and Ontario's Growing Debt Burden

Chapter 2 of our report provides some insight into the Public Accounts of Ontario. This is the 21st year that the government of Ontario has obtained a "clean" audit opinion from the Auditor General on the province's consolidated financial statements since the province adopted generally accepted accounting standards in the 1993/94 fiscal year.

Our key commentary in Chapter 2 is on Ontario's growing debt burden. Although the focus on eliminating Ontario's annual deficit is important, we think that government should provide more information on how it plans to achieve its longer-term objective of reducing its net debt-to-GDP ratio to its pre-recession level of 27%. Ontario's net debt-to-GDP ratio is projected to reach a high of 40.5% in 2015/16, after which the government expects it to decline. The net debt-to-GDP ratio is a key indicator of the government's financial ability to carry its debt relative to the size of the economy. It measures the relationship between a government's financial obligations and its capacity to raise the funds needed to meet them. This ratio is impacted by provincial economic growth and the government's borrowing from external parties.

While annual deficits are projected to decline, the province will still be increasing its borrowings annually to finance these deficits, to replace maturing debt and to fund public infrastructure projects (both public- and private-sector delivered). In fact, net debt (the difference between the government's liabilities and its total assets) and total debt (the total amount of borrowed money the government owes to external parties) are both expected to continue growing in absolute terms even after the province starts to run annual budget surpluses. This important fact should not go unnoticed by the members of the Legislature and the public. We estimate that total debt will exceed $340 billion by 2017/18 (it was at $295.8 billion on March 31, 2014).

By 2017/18, the year the government projects it will achieve an annual surplus, Ontario's net debt will have more than doubled over a 10-year period, from $156.6 billion in 2007/08 to over $325 billion by 2017/18. To put this in perspective, to eliminate Ontario's 2017/18 estimated net debt, every man, woman and child in Ontario would need to contribute $23,000 to the provincial coffers. We recommended that the government provide information on how it plans to achieve its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

Highlighting Three Audits

Is Value for Money Being Achieved?

Value for money can be defined as the "optimal use of resources to achieve the intended outcomes." It is a term used to assess whether or not the maximum benefit has been obtained from the goods and services an organization both acquires and provides, or in simpler terms, it involves "getting a good deal" for taxpayer or ratepayer dollars spent.

While the concept of value for money is addressed in various ways in all of our reports, two of the three audits I would like to highlight this year are directly related to this concept and involve significant dollars spent. They are our audits of the **Smart Metering Initiative** and **Infrastructure Ontario—Alternative Financing and Procurement**.

Smart Metering Initiative

The **Smart Metering Initiative** has spent nearly $2 billion of electricity ratepayers' money, but the intended outcomes of significantly reducing electricity peak demand usage using smart meters and time-of-use pricing (TOU) rates, and of reducing the need for new sources of power generation, have not yet been achieved. Under the initiative, ratepayers were supposed to use less electricity during peak times; as a result, Ontario would not need to immediately expand its power-generating capacity. Peak demand reduction targets set by the Ministry of Energy have not been met, ratepayers have had significant billing concerns, and ratepayers are also paying significantly more to support the expansion of power-generating capacity while also covering the cost of the implementation of smart metering.

As well, TOU rates have been significantly impacted by the Global Adjustment (an extra charge mainly to cover the gap between the guaranteed prices paid to contracted power generators and the electricity market price), which is included in these TOU rates. The Global Adjustment now accounts for 70% of TOU rates, while the market price of electricity accounts for only 30% of these rates. This is not transparent on ratepayers' electricity bills. From 2006 to 2013, the Global Adjustment increased almost 1,200%, while the average market price of electricity actually dropped 46%. By 2015, the 10 year-cumulative actual and projected Global Adjustment cost (between 2006 and 2015) is expected to reach about $50 billion. As our definition of the Global Adjustment indicates, the $50 billion is an extra amount covered by ratepayers over and above the actual market price of electricity. More contracted generators, especially producers of higher-priced renewable power, will soon be coming online, and ratepayers will pay even more in Global Adjustment charges.

Infrastructure Ontario—Alternative Financing and Procurement

In the case of our audit of **Infrastructure Ontario—Alternative Financing and Procurement** (AFP), Infrastructure Ontario uses value-for-money (VFM) assessments to decide whether large infrastructure projects should be delivered by the public sector or delivered by the private sector under the various AFP delivery models outlined in **Appendix 1** of **Chapter 3, Section 3.05**. For the 74 infrastructure projects where Infrastructure Ontario concluded that private-sector delivery would be more cost-effective, the tangible costs (such as those for construction, financing, legal services, engineering services and project management services) were estimated to be nearly $8 billion higher than if the public sector would have been able to directly deliver these infrastructure projects on time and on budget. The risks of having projects not delivered on time and on budget by the public sector were estimated to be about five times higher than having the private sector deliver these projects. A key element in the $8 billion is higher private-sector financing costs. The private sector initially finances the construction of AFP projects, but ultimately the province pays for these projects under the terms of their contracts with the private sector, some of which are up to 30 years. To March 31, 2014, public debt related to AFP projects has increased by an estimated $5 billion since 2005, and the province has almost $23.5 billion in liabilities and commitments relating to AFP projects that will have to be paid in the future.

We determined that Infrastructure Ontario should not have included two specific risks in its VFM assessments. Without these two risks, public-sector delivery for 18 of the 74 projects could have potentially saved $350 million when compared to the total cost assessed for delivery under AFP.

Based on our audit work and review of the AFP model, achieving savings through public-sector project delivery would be possible if the contracts for public-sector project delivery had strong provisions to manage risk and provided incentives for contractors to complete projects on time and on budget, and if there was a willingness and ability on the part of the public sector to manage the contractor relationship and enforce the provisions when needed. Total costs for these projects could be lower than under an AFP, and no risk premium would need to be paid.

There is a place for the use of both private-sector and public-sector delivery—the challenge is determining the right mix to achieve value for money for Ontario taxpayers. In **Chapter 3, Section 3.05**, we encourage a healthy discussion of the appropriate level of AFP delivery/private-sector financing that should be used, and an element of this discussion would also be how to best leverage the expertise Infrastructure Ontario has developed with AFPs to bring about the successful delivery of larger infrastructure projects by the public sector.

Doing Nothing Is An Option; But Is It The Right Option?

Government is complicated. Every day the public sector is challenged to make decisions that Ontarians would consider to be the right ones. This definitely was the case, as we note in **Chapter 3, Section 3.09**, for those working in the seven-year-old **Provincial Nominee Program** (Program). Over the last few years, they encountered immigration representatives who submitted questionable immigrant nominee applications, as well as potential nominees who submitted questionable applications themselves, yet took little action. In our opinion, the decision to do the right thing to protect the integrity of the Program would have involved restricting or banning individuals for submitting fraudulent information for a period of time and reporting these situations to the federal government, provincial counterparts operating their own nominee programs, regulatory bodies for immigration representatives or law enforcement agencies, so that actions could be taken quickly if warranted. Such decisions were not made or acted on in a timely manner by the program. In our audit of the Program, we encouraged the Ministry of Citizenship, Immigration and International Trade to address—in conjunction with the Office of the Information and Privacy Commissioner of Ontario, the federal government, law enforcement agencies and regulatory bodies—what it viewed to be obstacles to taking timely action regarding program integrity issues.

Five Recurring Issues in This Year's Audits

This report contains 12 audits covering diverse topics. Within this diversity, however, a number of similar issues come into view. The summaries in **Chapter 1** that follow these reflections, and the audit reports themselves in **Chapter 3**, provide more details on the audits we've conducted. In the following subsections, I highlight some examples of these similar, recurring issues.

Importance of Planning and Revisiting Plans As Time Goes By

Planning is the key to the delivery of successful outcomes that meet objectives as fully as possible. In thinking of the common expression "An ounce of prevention is worth a pound of cure," it occurs to me that an ounce of **planning** is worth a pound of cure, too.

Smart Metering Initiative

This is especially true in the case of the **Smart Metering Initiative**, where nearly $2 billion dollars has been spent to-date—nearly double the amount that the implementation of smart meters in Ontario, the first and largest smart-meter deployment in Canada, was projected in 2005 to cost. The decision to mandate smart metering in Ontario was not supported by an appropriate cost/benefit study, in contrast to other jurisdictions in Canada and abroad, which did prepare such studies. As a result, electricity ratepayers in Ontario are paying significantly more for this initiative in their monthly electricity bills than was originally intended.

The sheer complexity and complications of implementing smart meters, involving the Ministry of Energy, the Ontario Energy Board, the Independent Electricity System Operator and 73 distribution companies, including Hydro One, are discussed in **Chapter 3, Section 3.11**. Of special note is the involvement of the Ontario Energy Board. The Board was directed by the Minister of Energy to develop an implementation plan to achieve the government's smart-meter targets, despite the fact that as an independent regulator, part of the Board's mandate is to protect the interests of ratepayers with respect to prices. Even though the electricity market in Ontario continued to change during the implementation of smart meters, with the supply of electricity exceeding demand, the Ministry did not adjust the original smart-meter implementation plan.

Source Water Protection

Planning was a key issue in our audit of **Source Water Protection**. Fourteen years after the Walkerton drinking-water crisis, Ontario still does not have approved source water protection plans in place as envisioned by the Commission of Inquiry into the Walkerton disaster. These plans are intended to assess existing and potential threats to source water, and ensure that policies are in place to reduce or eliminate these threats. At the time of our audit, the Ministry of Environment and Climate Change did not have a clear time frame for when all source water protection plans will be approved. Moving forward, the Ministry also needs a long-term strategy to address funding and oversight of municipalities and Conservation Authorities to ensure that the plans, once approved, are actually implemented. This long-term strategy should also include timely updates of source water protection plans to ensure they remain current. Water treatment facilities are intended to provide only a second defence against contamination of drinking water. Protecting source water is safer and more cost-effective than detecting and treating contaminated water.

Palliative Care

The time is right for a strategic policy framework, along with a formal implementation plan, to be developed and implemented for the delivery of palliative care in Ontario. As pointed out in our audit of **Palliative Care**, such a framework can provide direction to support the implementation of commitments for providing care to patients across Ontario to maximize the quality of their remaining life.

Decision-making Must Consider and Address Risks to the Public

If governments had unlimited resources, everything governments wanted to do could be done. There would be no infrastructure deficits and no waiting lists for services. Everyone could be employed, and all needed inspections could be conducted to ensure compliance with legislation. In fact, it would not even matter that much if taxpayers' money was poorly spent. But the fact remains that resources are not unlimited, and governments must make choices about what their focus should be and what they can do with the resources available. This means that all decisions must consider risk.

Provincial Nominee Program

Given that Ontario is considered a very attractive province to immigrate to, Ontario's immigration program, the **Provincial Nominee Program** (Program), must have effective controls and processes to select qualified immigrant nominees who will provide economic benefit to the province, and to refer them to the federal government for approval. We found there to be a significant risk that the Program might not always be nominating qualified people who can be of economic benefit to Ontario. After seven years of operation, the Program still lacks the necessary tools, including policies, procedures and training, to help program staff make consistent and sound decisions.

Infrastructure Ontario's Loans Program

In our audit of **Infrastructure Ontario's Loans Program**, we found that many improvements had been made over the last year. The majority of loans are made to low-risk municipalities. The higher-risk, non-municipal loans we examined were being monitored by Infrastructure Ontario, which was taking appropriate action to deal with those few borrowers that were having difficulty meeting the conditions of their loan agreements. One of the most significant high-risk loans on the Watch List was made to a borrower that did not fall into any of Infrastructure Ontario's 10 eligible borrowing sectors, but which the government had made eligible through a regulatory amendment, to support its plans and priorities for research and innovation. This borrower was a subsidiary of MaRS Discovery District, a not-for-profit organization, and the loan was for $216 million. The lack of transparency around the policy objectives and intended benefits to be obtained from the significant financial risks assumed in providing this loan, as well as the Ministry of Research and Innovation's guaranteeing this loan, may have created the perception that the government is bailing out a private-sector developer. The borrower has a contract with the private-sector developer whose interest the government has offered to purchase to preserve previous investments in MaRS and its ongoing research mandate. Whether the future benefits that may be realized from this transaction will ultimately outweigh the risks and the costs assumed remains to be seen.

Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight

The growing level of underfunding of defined-benefit pension plans in Ontario is a serious concern and could pose a significant future financial risk. These plans do not currently have enough funds to pay full pensions to their 2.8 million members if they were wound up immediately. As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded compared to 74% as of December 31, 2005. Our audit titled **Financial Services Commission of Ontario—Pension Plan and Financial Services Regulatory Oversight** encourages the Financial Services Commission of Ontario (FSCO) to make better use of its powers to monitor pension plans and conduct on-site examinations. Over the last three fiscal years, FSCO has conducted on-site examinations of only 11% of underfunded plans on its solvency watch list. As well, the inspections conducted did not adequately cover significant areas, such as whether investments complied with federal investment rules for pension plans. We also encouraged FSCO to closely monitor the financial exposure risk of the Pension Benefits Guarantee Fund, and to strengthen its oversight and licensing of life insurance agents and registration of co-operative corporations.

Adult Community Corrections and the Ontario Parole Board

Potential risk to the public was a major consideration in our audit of **Adult Community Corrections and the Ontario Parole Board**. The Ministry of Community Safety and Correctional Services supervises and provides rehabilitative programming and treatment to adult offenders serving sentences in the community. To reduce public risk and lower the reoffend rate, the Ministry needs to better monitor the work of its probation and parole officers to ensure policies and procedures are followed, and to focus its available supervisory resources, rehabilitation programs and services on higher-risk offenders. We noted that lower-risk offenders were often oversupervised, while higher-risk offenders were undersupervised.

Child Care Program (Licensed Daycare)

The Ministry of Education is responsible for the safety of children in licensed daycares. Our audit of the **Child Care Program (Licensed Daycare)** found that the Ministry needs to strengthen its inspection processes and related enforcement actions over licensed child care operators in order to reduce the incidence of serious occurrences that put children at risk. More than 29,000 serious occurrences were reported to the Ministry by licensed child care operators between January 1, 2009, and May 31, 2014. We noted many examples where licensed child care operators with a history of non-compliance, considered to be high risk, were not being monitored more closely than well-run child care operations. The Ministry also needs to conduct inspections in a consistent and timely manner, and focus its resources on those child care operations posing a high risk to the safety of children. As well, because criminal record checks are not regularly updated and vulnerable person record checks are not being obtained by child care operators, children in licensed daycares might be being placed in higher-risk situations.

Residential Services for People with Developmental Disabilities

In our audit of **Residential Services for People with Developmental Disabilities**, we noted that about 45% of adult residences have not been inspected since at least 2010. Where inspections were performed, the Ministry of Community and Social Services did not conduct timely follow-ups to ensure corrective action was taken. As well, the Ministry did not have adequate procedures for verifying the information provided by Ministry-funded agencies providing residential services. Improvements are also needed with respect to the Ministry's serious occurrence reporting system to ensure data accuracy and usefulness for inspection action, follow-up and decision-making.

Decision-makers Must Have Timely, Accurate and Appropriate Information

Having timely, accurate and appropriate information is essential to making effective decisions and undertaking the right actions. Unfortunately, in the majority of our audits this year, we noted that many decisions were made without the benefit of complete and accurate information. Along with this, we saw significant investment in computer applications where the expected accuracy, quality and usefulness of information have not yet been achieved, yet the costs spent on development have exceeded their initial budgets.

Adult Community Corrections and the Ontario Parole Board

In our audit of **Adult Community Corrections and the Ontario Parole Board**, we found that the Ministry of Community Safety and Correctional Services does not have sufficient information on the availability, wait times for, and effectiveness of rehabilitation programs. The Ministry's Offender Tracking Information System does not capture needed information. As well, the Ministry does not have reliable and timely information on offenders who breached the conditions of their releases, or information about the monitoring action taken by probation and parole officers to address these violations (unless an offender's actions resulted in a serious incident).

Palliative Care

Our audit of **Palliative Care** highlighted that the Ministry of Health and Long-Term Care needs to obtain more information on the services that are available, their costs, patients' needs for services and what mix of services would best meet patient needs in a cost-effective way. This information is essential to the development of an integrated and co-ordinated system for the delivery of palliative care in Ontario.

Child Care Program (Licensed Daycare)

We noted that ministry management of the **Child Care Program (Licensed Daycare)** did not have the information necessary to properly oversee this program. For example, consolidated information on complaints, serious occurrences, and the status of operators' licenses and inspections was lacking.

Immunization

During our audit of **Immunization**, we noted that the Ministry of Health and Long-Term Care lacks complete and reliable information to monitor if Ontario's immunization program and delivery mechanisms operate in a cost-effective manner. For example, the Ministry does not track information on the total costs of delivering the immunization program in Ontario and therefore cannot ensure that the program is being delivered cost-effectively. As well, the Ministry estimates that costs will exceed $160 million ($85 million more than planned) on a new computer system to capture individuals' immunization information and assess province-wide immunization coverage rates. However, until immunization information is registered by all health-care providers at the time a vaccination is administered, the information that is being captured will not be complete or reliable.

Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services created the Developmental Services Consolidated Information System database in 2011 to consolidate the client information maintained by various service providers. During our audit of **Residential Services for People with Developmental Disabilities**, we noted that numerous problems exist with the data reliability of this information system. As well, we found that the program lacks meaningful performance indicators, and wait-time information is not tracked consistently across the province.

Ontario Energy Board—Natural Gas Regulation

In our audit of the **Ontario Energy Board—Natural Gas Regulation**, we noted that the Board should more fully assess the different approaches used by gas utilities in recovering their costs, as this has a direct impact on the rates they are able to charge gas ratepayers. The Board needs to more fully verify the accuracy and validity of the information provided by the gas utilities. Over the last 10 years, only one audit of gas cost adjustment accounts has been performed. We noted that Ontarians pay different natural gas rates depending on where they live in the province. This is attributable to gas utilities having different costs for transportation, distribution and storage. A typical residential customer using the same amount of natural gas can have a bill as low as $98.18 per month or as high as $115.15 per month, a 17% difference.

Provincial Nominee Program

In our audit of the **Provincial Nominee Program**, we highlighted that the Ministry of Citizenship, Immigration and International Trade does not have complete information to assess program outcomes such as whether any economic benefit was obtained from nominating individuals for immigration into Ontario who didn't have a job offer.

Allocation of Resources Must Consider Equality of Service for Ontarians

People in Ontario who have a similar need for public services expect to receive the same level of service regardless of where in Ontario they live. They also expect funding to service providers to be commensurate with the level of service being provided. However, we found that this is not always the case.

Palliative Care

In our audit on **Palliative Care**, we noted that because eligibility for and supply of palliative care services varies across the province, patients who qualify for services in one region may not have access to the same services if they live in another region.

Adult Community Corrections and the Ontario Parole Board

During our audit of **Adult Community Corrections and the Ontario Parole Board**, we noted that rehabilitation programs intended to reduce the risk of offenders reoffending are not consistently available across the province. We found that about 40 out of 100 probation and parole offices did not offer the Ministry's core programs, such as anger management and substance abuse prevention to their offenders, and the Ministry did not have information on whether the offices used alternative community programs instead. Also, the cost of programs varied significantly across the province. In some geographic areas, costs incurred were more than four to 12 times higher than those incurred in other areas to deliver similar programs.

Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services funds residential and support services for people with developmental disabilities to help them live as independently as possible in the community. In the 2013/14 fiscal year, the Ministry paid a total of $1.16 billion to 240 not-for-profit community agencies operating nearly 2,100 residences that provided residential and support services to people with developmental disabilities. In our audit of **Residential Services for People with Developmental Disabilities**, we noted that the Ministry funds service providers based on what they received in previous years rather than on the level of care required for the people they actually serve. We calculated the cost per bed and cost per person across the system for the 2012/13 fiscal year and found significant variations. For example, the cost per bed for adult group homes ranged from $21,400 to $310,000 province-wide, and we also observed large variations within regions, which the Ministry was unable to explain because it did not have good underlying information on what services it was getting for its funding. We further noted that there is no consistent process for children with developmental disabilities to access residential services.

Staff Need More Training

During our audits of the **Provincial Nominee Program**, the **Child Care Program (Licensed Daycare)**, **Adult Community Corrections and the Ontario Parole Board**, and **Residential Services for People with Developmental Disabilities**, we highlighted the need to provide ministry and agency staff with training to help them do their work more consistently and effectively.

Follow-ups on the Value-for-money Audits of 2012

A key part of our Office's work is following up on the implementation of recommendations in our past audit reports. This year, we followed up on the implementation status of 77 recommendations, requiring 170 actions, from the value-for-money audits conducted in 2012. We found that 81% of these actions have been either fully implemented or are in the process of being implemented. While the goal is full implementation, we noted positive intent by the various stakeholders to finish implementing the recommendations that are still in process. Follow-up reports are discussed and presented in **Chapter 4**.

Acknowledgments

I want to thank the many people in the public sector and the broader public sector who were involved in our work for their assistance and co-operation in the completion of this year's audits. We look forward to continuing to serve the Legislative Assembly and, through it, the citizens of Ontario.

Sincerely,

Bonnie Lysyk

Bonnie Lysyk
Auditor General of Ontario

Chapter 1

Summaries of Value-for-money Audits

3.01 Adult Community Corrections and Ontario Parole Board

The Ministry of Community Safety and Correctional Services (Ministry) supervises and provides rehabilitative programming and treatment to adult offenders serving sentences in the community. The overall goal is to help offenders not reoffend and reduce the risk to the public.

During the fiscal year ended March 31, 2014, there were 37,490 newly sentenced offenders serving community-based sentences, which include probation, conditional sentences, parole and temporary absences. On an average day, the Ministry is responsible for supervising more than 51,200 offenders.

The Ontario Parole Board (Board) is a quasi-judicial independent administrative tribunal that derives its authority from both federal and provincial legislation. (Ontario and Quebec are the only provinces with their own parole boards. Other provinces have arrangements with the Parole Board of Canada.)

We concluded that overall there continues to be substantial room for improvement in the Ministry's supervision of and rehabilitative programming for offenders serving their sentences in the community. For instance, little headway has been made over the last decade in reducing the overall reoffend rate. Specifically, the overall average reoffend rate for these offenders increased slightly, from 21.2% in 2001/02 to 23.6% in 2010/11. As well, for high- and very-high-risk offenders, the rate of reoffending is much higher at 42.7% and 60.3% respectively.

Other significant issues included the following:

- Processes were not sufficient to ensure that probation and parole officers completed risk assessments for all offenders within the required six weeks of the offender's initial intake appointment with a probation and parole officer. The timely completion of this risk assessment is critical to establishing an effective offender management plan, which details supervision requirements and rehabilitation needs during the community sentence period.
- The Ministry did not have reliable and timely information on offenders who breached conditions of their release. As well, probation and parole officers did not use effective measures to ensure that more stringent conditions imposed by courts, such as curfews and house arrest, were enforced.
- We found that lower-risk offenders were often over-supervised and higher-risk offenders were under-supervised.
- Many probation and parole officers were not sufficiently trained to effectively oversee higher-risk offenders or those with mental health issues. The Ministry estimated that the number of offenders with mental health issues has grown 90% over the last 10 years to 10,000 offenders, representing at least 20% of the number of offenders supervised each day.

- Rehabilitation programs intended to reduce the risk of offenders reoffending are not consistently available across the province. We found that about 40 of 100 probation and parole offices did not have core programs, such as anger management and substance abuse, available to offer to their offenders.
- Currently, the Ministry does not evaluate the quality of external rehabilitation programs to determine whether they are effective in contributing to an offender's successful reintegration into society or whether the programs are helping to reduce the reoffend rate.
- Only half the number of inmates applied to the Ontario Parole Board for a parole hearing in 2013/14 than applied in 2000/01. Low parole participation rates can be attributed to a number of factors including shorter sentences, the lengthy and onerous process in place for inmates to apply for a parole hearing, and the low approval rate.

Our audit report recommends, among other things, that the Ministry target its services to higher-risk offenders; compare Ontario's expenditures and program outcomes for supervising and rehabilitating offenders with other jurisdictions to assess whether programs are cost-effective; strengthen procedures to ensure probation and parole officers complete risk assessments and offender management plans consistently and on a timely basis; assess whether probation and parole officers have the tools to ensure offenders comply with their sentencing conditions; ensure officers have the skill to supervise higher-risk offenders; establish a strategy that includes training for probation and parole officers to assist offenders with mental health issues; and track the effectiveness, availability and wait times for rehabilitative programs across the province.

3.02 Child Care Program (Licensed Daycare)

The Ministry of Education (Ministry) is responsible under the *Day Nurseries Act* and its regulations for ensuring that children in licensed child care operations are safe. These responsibilities include issuing and renewing child care operators' licences, inspecting and monitoring licensed facilities, gathering information on serious occurrences in licensed facilities and investigating complaints.

Our audit found that the Ministry needs to do significantly more to reduce the risk and incidents of serious occurrences to children by ensuring that licensed child care operators protect the health, safety and well-being of children in its care. The Ministry can do this by strengthening its inspection processes and related enforcement actions over licensed child care operators.

More than 29,000 serious occurrences were reported to the Ministry by licensed child care operators between January 1, 2009 and May 31, 2014. These occurrences include serious injury to a child, abuse of a child, a child gone missing, fire or other disaster, and physical or safety threats on the premises. We found that many of these incidents were not being reported to the Ministry within the required 24 hours, including a case of alleged physical abuse by a child care employee that was witnessed by another staff member. We were concerned that child care operators were not reporting all serious occurrences to the Ministry.

As well, we noted cases where the same concerns about child health, safety and well-being were noted in multiple inspections and that only 18 enforcement actions were taken in the last five years. Although the current legislation outlines grounds on which the Ministry can revoke or refuse to renew a licence, we noted there were no operational guidelines to help staff determine when such enforcement actions were appropriate. With the potential proclamation of Bill 10, the *Child Care Modernization Act, 2014*, the Ministry will still need to address how to operationalize enforcement requirements.

Other significant issues included the following:

- Over the last five years, program advisors have not inspected approximately one third of child care operators before the expiry date on their licences. As well, we found many examples where operators with ongoing child health and safety concerns were not being monitored any more closely than were well-run child care centres. For example, from our sample of operators with provisional licences, which are operators considered to be high risk, we found that more than 80% of them were inspected after the expiry date on their licences. Therefore, there was no timely verification that the previous safety concerns noted were resolved.

- Ontario does not require child care operators and their staff to obtain vulnerable sector checks, something that is required in Alberta and Saskatchewan. These checks are more thorough than criminal reference checks and are designed to screen people who work with children or others considered at greater risk than the general public. A vulnerable sector check is already required by Ontario's Ministry of Health and Long-term Care for people seeking employment in long-term care homes.
- The caseloads of Ministry program advisors, who carry out licensing, inspection, complaint and serious occurrences duties, have been growing significantly. Since 2005, the number of child care operators has increased by 33%, while the number of program advisors has remained relatively constant. As a result, over half of the program advisors were responsible for the inspection and oversight of more than 100 child care centres compared to an average caseload of 65 centres per advisor in 2005.
- Program advisors exercise a great deal of discretion during the course of their work because Ministry policies and guidelines are often vague or nonexistent. For example, there were no guidelines on how to verify that medications, cleaning supplies and other hazardous substances were properly stored and inaccessible to children. We noted that program advisor verification could range from minimal to thorough.

We recommended that the Ministry should take more effective action against operators that do not report serious occurrences as required by law; develop guidelines for investigating and following up on serious occurrences; establish mandatory provincial guidelines for child care programming; develop more useful guidance for program advisors to evaluate child care programs and assess whether new applicants are competent enough to run a child care centre; gauge the risk of non-compliance posed by each new operator to identify high-risk operators and develop a risk-based approach for determining how often these operators should be inspected; address the backlog of inspections; strengthen the oversight of private-home day care agencies; disclose and provide more detail on its child care website of all non-compliance issues noted during inspections; more closely monitor operators who have been issued provisional licences; review its policy regarding criminal reference checks to assess whether it should be updated; and require operators and their staff to obtain vulnerable sector checks.

3.03 Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight

The Financial Services Commission of Ontario (FSCO) is an agency accountable to the Ministry of Finance and responsible in Ontario for regulating pension plans; the insurance industry; the mortgage brokerage industry; credit unions and caisses populaires; loan and trust companies; and co-operative corporations (known as co-ops). FSCO's mandate is to protect the public interest and enhance public confidence in Ontario's regulated financial sectors through registration, licensing, monitoring and enforcement.

The Pension Division of FSCO administers and enforces the *Pension Benefits Act* (Act) and its regulations. Under the Act, every employer that establishes a pension plan in Ontario must register it with FSCO and comply with the reporting and fiduciary responsibilities set out in the Act. The Licensing and Market Conduct Division of FSCO administers and enforces the requirements of legislation pertaining to the financial service sector.

Underfunded pension plans are those that would not have enough funds to pay full pensions to their members if they were wound up immediately. We noted that the level of underfunding in defined-benefit pension plans in Ontario has become significantly worse over the past decade. As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded, compared to 74% as of December 31, 2005. The total amount of underfunding of these plans grew from $22 billion in December 2005 to $75 billion in December 2013.

FSCO has limited powers to deal with administrators of severely underfunded pension plans, or those who do not administer plans in compliance with the Act. In contrast, FSCO's federal counterpart has legal authority to terminate a plan, appoint a plan administrator, or act as an administrator, but FSCO can only prosecute an administrator (which is usually the employer company) or take action after it orders the wind-up of a plan. As well, it cannot impose fines on those who fail to file information returns on time.

We concluded that FSCO should make better use of the powers it already has under the Act to monitor pension plans, especially those that are underfunded. Regarding the oversight of pensions, other significant issues included the following:

- Over the last four years, FSCO conducted on-site examinations of only 11% of underfunded plans on its solvency watch list. At this rate, it would take 14 years to examine them all. As well, FSCO took little or no action against late filers of information.
- It is uncertain whether the Pension Benefits Guarantee Fund, designed to protect members and beneficiaries of single-employer defined-benefit plans in the event of employer insolvency, is itself sustainable.

With respect to the Licensing and Market Conduct Division's (Division's) oversight of regulated financial services, we had the following significant issues:

- FSCO undertakes minimal oversight of co-ops, which raise millions of dollars from investors each year for ventures such as renewable energy initiatives. FSCO does no criminal background checks of key members before a co-op is registered and begins raising money.
- Weakness in FSCO's online licensing system allows life insurance agents to hold active licences without having entered proper information about whether they have up-to-date errors-and-omissions insurance to cover client losses arising from negligence or fraud by an agent.
- There were significant delays and weak follow-up enforcement actions in the Division's handling of several serious complaints.

We recommended that FSCO conduct an analysis of the specific reasons for the increase in underfunded pension plans and the financial exposure to the province; assess the Pension Benefits Guarantee Fund's financial risk exposure to potential claims and to its continuation; seek legislative changes if necessary to increase the powers of the Superintendent; ensure that its online licensing system has the necessary controls to identify and reject licences for insurance agents who do not meet minimum requirements; investigate complaints in a timely manner; and explore opportunities to transfer more self-governing responsibilities to financial services sectors.

3.04 Immunization

Ontario's publicly funded immunization schedule currently includes vaccines that protect against 16 infectious diseases. Eligible people in Ontario can be immunized against these infectious diseases at no cost. Most vaccines are administered by family physicians, but other health-care providers also administer certain vaccines, such as the influenza vaccine.

The federal government is responsible for approving new vaccines prior to their use. The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for Ontario's immunization program, including advising the government which vaccines to publicly fund and the eligibility criteria for each one.

We estimated that operational funding for Ontario's immunization program was about $250 million in the 2013/14 fiscal year. However, because the Ministry does not track the total costs of the immunization program, it does not know whether the program is being delivered cost-effectively. As well, information on children's immunization rates relies on parents reporting information to public health units often years after their child is vaccinated, as opposed to health-care providers reporting the information when they administer the vaccines. As a result, immunization coverage information is not reliable.

Other significant issues we noted included the following:

- There is minimal provincial co-ordination of the immunization programs delivered by the 36 municipally governed public health units in Ontario. Public health units act independently and are not responsible to Ontario's Chief Medical Officer of Health. As such, it is difficult for the Ministry to determine the most effective model for delivering Ontario's immunization program.
- Ministry funding to the public health units varied significantly, from $2 per person in one area to $16 per person in another. The Ministry has not analyzed the reasons for such variations to determine if such cost discrepancies are justified.
- Ontario is implementing a new system called Panorama, which includes a vaccination registry, at an estimated cost that has escalated by over $85 million and is now expected to exceed $160 million. Until such time as all vaccinations are contained in Panorama, the completeness of the data is limited, similar to the system it is replacing. That is, it will not provide the data needed to identify areas of the province with low immunization coverage rates, which could help prevent future outbreaks and identify vulnerable people during an outbreak.
- Ontario's child immunization rates are below federal targets and below the level of immunization coverage necessary to prevent the transmission of disease. One public health unit reported that outbreaks would occur if its measles immunization coverage rate decreased by as little as 10% from its current immunization rate.
- The Ministry lacks information on immunization coverage in licensed daycares. Parents choosing a daycare for their child who is not able to be vaccinated cannot readily access public information on the percentage of children who are not immunized in each daycare. In one situation, we noted that 31% of children in a daycare were not immunized against measles.
- We found questionable flu immunization billings in 2013/14, including about 21,000 instances where the Ministry paid physicians and pharmacists for administering the flu vaccine more than once to the same person. As well, the Ministry did not have information on how many, of almost one million doses of the flu vaccine that it purchased, had actually been administered.
- The majority of the public health units we reviewed expressed concerns regarding excess and expired inventory at health-care providers. There is no cost to public health units or health-care providers who order more of the publicly funded vaccines than they use, and the Ministry has no system to consistently identify unreasonable orders. Health-care providers and public health units reported $3 million in vaccines expiring before use for the 2012/13 fiscal year.

- There is no process to ensure that new adult immigrants are immunized before or soon after arriving in Ontario. This makes them more susceptible to acquiring a vaccine-preventable disease, which may spread to other unimmunized Ontarians.

Our recommendations included that the Ministry review the immunization program delivery structure and consider alternative options; develop processes to enable physicians and other health-care providers to electronically update the immunization registry each time they provide a vaccine to both children and adults; establish provincial immunization coverage targets and monitor whether they are being achieved; ensure that public health units are taking appropriate actions to identify and address areas of the province, including daycare centres and schools, with low immunization rates; publicly report immunization rates by daycare and school; and implement processes aimed at ensuring that the volume of vaccines ordered by health-care providers is reasonable.

3.05 Infrastructure Ontario—Alternative Financing and Procurement

When the province constructs public-sector facilities such as hospitals, court houses and schools, it can either manage and fund the construction itself or have the private sector finance and deliver the facilities under what is called an Alternative Financing and Procurement (AFP) approach, a form of public-private partnerships (P3s) frequently used in Ontario. Contractual agreements between the government and the private sector define AFP arrangements. Under these agreements, private-sector businesses deliver large infrastructure projects, and the various partners (private sector and public sector) share the responsibilities and business risks of financing and constructing the project on time and on budget. In some cases, the private sector is also responsible for the maintenance and/or operation of the project for 30 years after it is built.

The private sector initially finances construction of AFP projects, but as with projects delivered by the public sector, the province ultimately pays for these projects under the terms of their contracts, some of which are up to 30 years. The province's March 31, 2014 public accounts reported almost $23.5 billion in liabilities and commitments that the present and future governments, and ultimately taxpayers, will have to pay. However, the financial impact of AFP projects is higher since the province has also borrowed funds to make the payments to AFP contractors when the various projects reached substantial completion. These borrowed amounts, which we estimate to be an additional $5 billion, are part of the total public debt recorded in the March 31, 2014 Public Accounts.

Since 2005, large-scale infrastructure projects under the AFP model have been managed by Infrastructure Ontario. To compare whether each large infrastructure project should be delivered using the AFP approach versus directly by the public sector, Infrastructure Ontario relies on "value-for-money" (VFM) assessments. These VFM assessments take into account both estimated tangible costs and the estimated costs of related risks (for example, late changes to project design or changes in government priorities that result in delays), some of which are assumed to be transferred to the private sector under AFP reducing the province's cost.

For 74 infrastructure projects (either completed or under way) where Infrastructure Ontario concluded that private-sector project delivery under the AFP approach would be more cost effective, we noted that the tangible costs (such as construction, financing, legal services, engineering services and project management services) were estimated to be nearly $8 billion higher than they were estimated to be if the projects were contracted out and managed by the public sector. The majority of this ($6.5 billion) relates to private sector financing costs.

Infrastructure Ontario estimated that this $8-billion difference was more than offset by the risk of potential cost overruns if the construction and, in some cases, the maintenance of these 74 facilities was undertaken directly by the public sector. In essence, Infrastructure Ontario estimated that the risk of having the projects not being delivered on time, and on budget, was about five times higher if the public sector directly managed these projects versus having the private sector manage the projects.

We also noted the following:

- There is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. Instead, the agency relies on the professional judgment and experience of external advisers to make these cost assignments, making them difficult to verify. In this regard, we noted that often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used to value risks between the public sector delivering projects and the AFP approach.
- In some cases, a risk that the project's VFM assessment assumed would be transferred to the private-sector contractor was not actually transferred, according to the project's contractual agreement. For example, the VFM assessment for a hospital project assumed the contractor would bear the risks of design changes; however, this hospital project's contract indicated that the contractor was not responsible for project design, and that the public sector was responsible for the risk of design changes.
- Two of the risks that Infrastructure Ontario included in its VFM assessments should not have been included. If they had not been included in the VFM assessments, public-sector delivery for 18 of these projects would have been assessed as $350 million cheaper than delivery under the AFP approach.

Based on our audit work and review of the AFP model, we determined that achieving value for money under public-sector project delivery would be possible if contracts for public-sector projects have strong provisions to manage risk and provide incentives for contractors to complete projects on time and on budget, and if there is a willingness and ability on the part of the public sector to manage the contractor relationship and enforce contract provisions when needed.

Infrastructure Ontario has a strong track record of delivering projects such as hospitals, courthouses and detention centres on time and on budget. It may now be in a position to utilize its expertise to directly manage the construction of certain large infrastructure assets and thereby reduce the cost to taxpayers of private-sector financing. There is a role for both private-sector and public-sector project delivery. As experience with AFPs has developed, it may be time to assess what those roles and the financing mix should be going forward.

We recommended that Infrastructure Ontario gather data on actual costs from recent projects—both AFP and non-AFP—and revise its VFM assessment methodology to ensure that its risk valuations are justified; confirm that all risks assumed to be transferred to the AFP contractor are actually transferred in contracts; and that Infrastructure Ontario be engaged in traditional forms of procurement to utilize the experience that it has gained in delivering AFPs, for the most part, on time and on budget, in order to achieve additional cost benefits for Ontario taxpayers.

3.06 Infrastructure Ontario's Loans Program

Infrastructure Ontario (IO), a Crown corporation, has four main lines of business dealing with government and non-government clients—real estate management, Ontario Lands, project delivery and lending (the Loans Program). The Loans Program existed before IO was created in 2011 to make and administer loans primarily to municipalities. Over the years, the types of borrowers eligible for the program have grown to 10 eligible sectors. Certain other entities—the 2015 Pan American Games Organizing Committee and MaRS Discovery District, for example—have also been specially named as eligible borrowers under the legislation that governs the Loans Program.

The Loans Program has a portfolio of 806 loans advanced to 353 borrowers and has approved loans totaling $7 billion since its inception. As of March 31, 2014, IO's balance of outstanding loans receivable totalled approximately $4.9 billion.

IO maintains a Credit Risk Policy that outlines its credit risk management strategy, roles and responsibilities, internal controls and requirements for reporting to its board of directors. In addition to the general policy that defines credit risk as "the potential for default or non-payment by borrowers of scheduled interest or principal repayments," IO has policies on credit risk and lending for each of the 10 eligible sectors.

Although most of IO's loans have been made to relatively low-risk municipal borrowers, and loan defaults have to date been very low, we did note the following concerns about the Loans Program:

- A loan for up to $235 million, of which $216 million was outstanding as of March 31, 2014, was made to a subsidiary of MaRS Discovery District, a not-for-profit organization that would not have been eligible for the Loans Program, except for a regulatory amendment. MaRS Discovery District sought the loan to help restart construction of an office tower to be built, owned and operated by a private-sector developer, and it made concessions to the developer to avoid further delays following the economic downturn in 2008. Given the risks identified, IO was unwilling to make the loan without further security, which the government provided by way of a guarantee through the Ministry of Research and Innovation, in order to preserve prior government investments in MaRS and the MaRS research mandate. The project is now complete and the building ready to be occupied, but the amount of space leased so far is not enough to support the interest payments on the loan. IO has therefore enforced the guarantee. As well, the most significant leases signed so far are with two publicly funded organizations—Public Health Ontario and the Ontario Institute for Cancer Research. These leases were committed to before construction began in 2007 at rates that are higher than current market rents. Whether the government's recent decision to purchase the private sector developer's interest in the project is a good deal for taxpayers remains to be seen.
- Also on IO's Loans Watch List are two older loans to not-for-profit organizations that were made based on assumptions about donation revenues that have not materialized. The two loans had a balance of approximately $75 million outstanding as of March 31, 2014.
- IO needs to enhance its credit-risk assessment models, especially for non-municipal borrowers, which tend to be higher risk, as well as update and strengthen its credit-risk policies.
- IO's loan-monitoring procedures were not well documented at the time of our audit.
- IO currently lacks a monitoring tool to track and monitor compliance with non-standard loan covenants in certain loan agreements.

In our report, we recommended that IO formalize and document its monitoring procedures for municipal loans; implement its action plan to address the deficiencies identified in a 2013 consultant's review of its credit and lending processes; and develop a tracking tool to record and monitor non-standard loan covenants that are included in signed loan agreements.

3.07 Ontario Energy Board—Natural Gas Regulation

The Ontario Energy Board (Board) is responsible for ensuring that natural gas market participants comply with the *Energy Consumer Protection Act*, which pertains specifically to those selling to low-volume users, such as households. Under the *Ontario Energy Board Act*, the Board's objectives include facilitating competition in the sale of gas to consumers and protecting the interests of consumers with respect to prices and the reliability and quality of gas services. In carrying out its mandate, the Board sets prices for natural gas and its delivery and storage. It also licenses and oversees natural gas market participants, including gas utilities and gas marketers.

In Ontario, residential consumers have the option of purchasing natural gas from either a gas utility or one of 12 gas marketers actively selling natural gas in Ontario. There are three utilities that own the pipes and equipment that deliver the natural gas to homes and businesses, plus two municipal utilities that also distribute natural gas. Each utility serves different areas of the province.

The Board regulates the rate that the three utilities charge their consumers, but not those that the gas marketers charge. The gas marketers operate as brokers, locating natural gas on the market to sell competitively. When consumers buy gas from marketers, they sign fixed-term contracts for periods of one to five years. Otherwise, they get their gas supply from their utility, which is the default supplier. For the year ended March 31, 2014, there were 3.5 million natural gas customers in Ontario. Of these, over 3 million purchased their gas from one of the three utilities.

The Board conducts its oversight through a quasi-judicial process that includes public participation. Panels of board members hold proceedings and their decisions must uphold the broad public interest, including the protection of consumers, the financial integrity of the utilities, and other legislated goals, such as the safe operation of storage and energy conservation.

The Board uses a three-stage process in regulating natural gas rates. In the first stage, utilities must submit cost-of-service applications approximately every five years to establish the base rate to charge consumers. In the second stage, the Board reviews and adjusts gas rates annually between cost-of-service reviews, typically using a formula that considers inflation adjusted by the utilities' productivity figures. In the third stage, gas rates are adjusted four times a year to smooth out fluctuations in billing rates and to reflect current market prices for natural gas, as well as changes in transportation rates and inventory valuations.

We found that the Board has adequate systems and processes in place to protect the interests of natural gas consumers and ensure that the natural gas sector provides energy at a reasonable cost. However, Board staff could more fully assess the cases utilities make when they apply to the Board for rate changes.

Some significant issues included the following:

- Gas utilities are not allowed to charge consumers more than the purchase cost of gas, but Board staff seldom obtained source documents to verify the information the utilities provided in rate change applications. We noted that over the last 10 years only one audit of gas cost adjustment accounts and accounting processes was done, in 2011, and on only one utility.
- Utilities apply different approaches to recover their Board-approved revenue requirements, but Board staff had not assessed the impact that these differences have on consumers.
- Although complaints against gas marketers decreased by 81% from 2009 to 2013, contract cancellation and renewal issues were still the sources of many complaints when consumers discovered they could pay lower prices with other gas providers. The Board could facilitate providing consumers with rate information from the various gas providers on its website to help them make more informed decisions before they entered into a contract.

We recommended that the Board compare the different cost recovery approaches used by utilities and identify best practices in purchase, transport and storage that could affect consumer rates; periodically select source documents from utilities for review to assess the reasonableness of the information on rate-change applications; and consider including on its public website information on the gas rates offered by various gas marketers.

3.08 Palliative Care

The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for health care in Ontario, including palliative care. Palliative care focuses on the relief of pain and other symptoms for patients with advanced illnesses, and is often referred to as "end of life" care for persons within their last few months of life.

The Ministry funds 14 Local Health Integration Networks (LHINs), which are responsible for planning, co-ordinating, funding and monitoring palliative-care services in their regions. The LHINs fund various organizations that provide palliative care, including Community Care Access Centres (which provide care in patients' homes), hospitals and hospices (which are home-like facilities that provide inpatient palliative care). However, the total amount of funding the Ministry provides for palliative-care services is not known because costs are not tracked specifically enough to isolate the amount spent on palliative care (e.g., hospital-based costs, long term care home–based costs and publicly funded drug costs).

The need for palliative care is growing because the population is aging. Palliative-care services in Ontario developed in a patchwork fashion, often being initiated by individuals who had a passion for this area of care, wherever they were located in the province. As a result, although efforts have been made to create an integrated co-ordinated system to deliver palliative care in Ontario, no such system yet exists. The Ministry obtains only minimal information on the services that are available in each LHIN, their costs, and the relative patient need for these services. The Ministry also lacks performance measures to help determine its progress in meeting its goal of providing the "right care at the right time in the right place."

Some significant issues included the following:

- Ontario lacks a strategic policy framework for delivering palliative care. Although the 2011 Declaration of Partnership established a common vision for delivering palliative-care services among a number of stakeholders, significant work still needs to be done to meet most of the commitments outlined in it.
- There is little province-wide or LHIN-level information on the supply of or demand for palliative and end-of-life care. The Ministry does not have accurate information on the number of palliative-care beds in hospitals across the province, nor is the number of palliative patients served by each LHIN tracked consistently.
- The mix of services available has not been adequately assessed. Although most people would prefer to die at home, most die in hospital, likely because there are not sufficient services available in the community to meet their health-care needs. Caring for terminally ill patients in an acute-care hospital is estimated to cost over 40% more than providing care in a hospital-based palliative-care unit, more than double the cost of providing care in a hospice bed, and over 10 times more than providing at-home care.
- Access to palliative-care services is not equitable. Patients who qualify for services in one area of the province may not have access to similar services in another area.
- Overall, hospices have a 20% vacancy rate and thus have the potential to serve more patients than they are currently. Meanwhile, the Ministry funds hospices with vacant beds.
- There is a need for additional physician communication with patients about their end-of-life prognosis and the availability of palliative care.
- Ontario's publicly funded palliative-care services are mainly used by cancer patients, even though as many people die each year from advanced chronic illnesses that would also benefit from palliative care, including heart disease, stroke and chronic obstructive pulmonary disease.

Our recommendations included that the Ministry create an overall policy framework on the provision of palliative-care services; implement a co-ordinated system for the delivery of these services; ensure patients have complete information on their prognosis and care options; ensure that patients have similar access to similar services across Ontario by standardizing patient eligibility practices; explore the feasibility of increasing the occupancy rates at hospices; ensure that public information on palliative-care services and end-of-life care is available and easily accessed; and adopt palliative-care performance indicators and associated benchmarks.

3.09 Provincial Nominee Program

The Provincial Nominee Program (Program), delivered by the Ministry of Citizenship, Immigration and International Trade (Ministry), is the only immigration selection program administered by the Ontario government. Immigrants are nominated by the Program based on their potential economic contribution to the province.

Under the Program, the province is allowed to select and recommend ("nominate") to the federal government foreign nationals and their accompanying family members for permanent residency in Canada. At the time of our audit, the Program had three components: an employer-driven component, for business to fill permanent positions in professional, managerial or skilled-trades occupations; an Ontario graduate component, which allows international students graduating from Ontario universities with post-graduate degrees to qualify for nomination without a job offer; and an investment component, which lets investors permanently relocate staff (who may be foreign workers) to Ontario.

From the Program's inception in 2007 to June 2014, Ontario nominated about 6,600 people. As of April 30, 2014, 7,100 people—3,900 nominees and 3,200 family members—have become permanent residents through the Program. The Ministry expects the federal government to allow Ontario to nominate up to 5,500 potential immigrants in 2015.

As Ontario is considered a very attractive province to immigrate to, the Program must have effective controls and processes in place to select qualified nominees and detect immigration fraud. A weak program can be targeted by unscrupulous potential immigrants and immigration representatives. Our audit found that the necessary controls and processes were not in place and that there are significant issues regarding the Program that need to be addressed.

There is a significant risk that the Program might not always be nominating qualified people who can be of economic benefit to Ontario. In some cases, it can be difficult to distinguish eligible and ineligible jobs under the Program. Seven years after it began, the Program still lacks the necessary tools, including policies, procedures and training, to help program staff make consistent and sound selection decisions. In addition, we found that program staff had not been provided with clear guidelines on how to deal with immigration fraud.

Some significant issues include the following:

- From 2007 to 2013, 20% of the 400 denied applicants were turned down because of misrepresentation. However, there is nothing stopping people who have misrepresented themselves or their clients from reapplying or representing other clients. The Program does not have a protocol in place to ban applicants or their representatives who have submitted fraudulent applications.
- The Program did not follow up on questionable files that were approved but flagged for follow-up. About 260 files were flagged between October 2011 and November 2013, but only 8% had been followed up on at the time of our audit. The Ministry did not review the majority of the 260 files before 71% of these nominees became landed immigrants.
- The Ministry delayed formally reporting information relating to potential abuse of the Program to the federal government and proper law enforcement agencies and did not provide vital personal information to them, thereby potentially delaying corrective action against individuals who might be abusing the

Program. As well, the Program did not report its concerns about certain immigration representatives to its respective regulatory bodies.

- Program management did not share program integrity concerns with internal staff in order to enhance their due diligence processes.
- The Program is required to select nominees who can contribute economic benefits to Ontario, but the Program allows the nomination of people with no job offers. Two-thirds of the nominees in 2013 were international students with a post-graduate degree but no job offer. The Ministry has not evaluated whether these nominees became employed and are making an economic contribution to Ontario.
- Staff turnover in the Program has been high, with 31 staff leaving the Program and 59 staff starting between January 2012 and June 2014. As of March 31, 2014, there were 45 staff working in the Program.
- Even though the Ministry says publicly that applications are processed on a first-come-first-served basis, certain applications were given priority and processed at least three times faster than others. We noted that files submitted by a certain representative, who was a former program employee, were prioritized.
- Significant data integrity issues were noted with the case management system and there were weak internal controls over nomination certificates.

Some of our recommendations included that the Ministry file formal complaints with the RCMP and any applicable regulatory bodies as soon as it has evidence of potential immigration fraud; implement necessary steps to allow banning of applicants and representatives who have misrepresented themselves or clients; establish limits for the proportion of nominees who can be accepted without job offers; scrutinize applicants applying for jobs in classifications where they could be misrepresenting their work experience; enhance program staff training, including on ethical matters and management expectations; require that program staff obtain security clearance; and develop a process to track representatives and applicants of concern, and to alert processing staff of these concerns.

3.10 Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services (Ministry) funds residential and support services for people with developmental disabilities to help them live as independently as possible in the community. The Ministry estimated there were 62,000 adults in Ontario with developmental disabilities in 2012, about half of whom needed residential services. Of these, 17,900 people received residential services in the 2013/14 fiscal year, 98% of them adults. Another 14,300 adults were on a wait list at year's end.

In 2013/14, the Ministry paid a total of $1.16 billion to 240 not-for-profit community agencies that operated nearly 2,100 residences that provided residential and support services to people with developmental disabilities. Of this total, 97% was for adult services. The Ministry, through regional offices, is responsible for overseeing program delivery for most residential services by agencies. Children's residential services are also funded by the Ministry.

The adult developmental service system faces challenges because its clients are growing older and living longer, and their care needs are complex (40% of those with developmental disabilities also have mental health issues).

In our audit, we noted that over the last four years, the number of Ontarians with developmental disabilities receiving provincial services and supports grew only 1% to 17,900, while spending on those services and supports rose 14% to $1.16 billion. A portion of this funding increase was intended to accommodate 1,000 more people over four years, but only 240 more were being served by the end of the third year. As such, program costs are increasing faster than the number of people served. As well, as of March 31, 2014, the number of people waiting for services was almost as high as the number of people who had received services in the previous 12 months.

In 2004, the Ministry began work on a comprehensive transformation of developmental services in Ontario; however, the project was still unfinished at the time of our audit in 2007 and our audit now. The Ministry has made some progress by, for instance, establishing Developmental Services Ontario as a single access point for adult developmental services.

Significant shortcomings remain in a number of areas:

- From 2009/10 to 2013/14, the number of people waiting for adult residential services increased 50% while the number served increased only 1%. We calculated that it would take 22 years to place everyone who is currently waiting for a residence, assuming no one else joins the list.
- Eligibility and needs assessment of applicants has improved, but the Ministry still needs to complete the development of a consistent and needs-based prioritization process. People with the highest-priority needs are not usually placed first because residential services placements go to people who are the best fit for the spaces that become available, rather than to those who are assessed as having the highest priority needs.
- The Ministry needs to revise funding methods to link residential funding to residential level of care needs. Ministry funding to service providers is currently based on what the providers received in previous years, rather than on the level of care they need to provide the people they serve. A new funding method based on a reasonable unit cost for services by level of care could lead to savings that would allow more people now on wait lists to be served.
- We found wide variations in the cost per bed or cost per person across the system for 2012/13. We calculated the cost per bed for adult group homes ranged from $21,400 to $310,000 province-wide. We also found large variances within regions. The Ministry was unable to explain the variances.
- About 45% of adult residences have not been inspected since 2010. Inspections typically include a review of agency policies and procedures, board documents, and staff and resident records, in order to assess the physical condition of a residence, the personal care provided to residents, the management of residents' personal finances, and whether the residence has a fire safety plan. For those inspections conducted, we found that issues were not being followed up on or resolved in a timely manner. The results of residence inspections are not made public.
- Ontario has few care standards and they are general in nature and open to interpretation.
- The Ministry does not have meaningful performance indicators to assess the quality of residential care provided.
- The Ministry created the Developmental Services Consolidated Information System database in 2011 for client information. However there are problems with the accuracy and completeness of the wait management information.
- The segregation of roles between the Ministry of Community and Social Services and the Ministry of Children and Youth Services regarding children's residential services is confusing: one ministry is responsible for contracting, funding and managing the relationship with service providers and another ministry is responsible for handling complaints, and licensing and inspecting those service provider premises. The confusion can arise over who is accountable for the overall delivery of children's residential services. As well, there is no consistent single access point for children's residential services.

We recommended that the Ministry establish a funding model based on the assessed needs of people who require services; review performance measures used in other jurisdictions to evaluate residential services for vulnerable people and adapt these for its own use; develop a consistent prioritization process across the province; develop a consistent wait-list management process across the province; conduct unannounced inspections of residences; and establish further standard-of-care benchmarks, such as staff-to-resident ratios.

3.11 Smart Metering Initiative

The Ontario government's Smart Metering Initiative (Smart Metering) is a large and complex project that required the involvement of the Ministry of Energy (Ministry), the Ontario Energy Board, the Independent Electricity System Operator, and 73 distribution companies, including Hydro One. In 2004, the government announced plans to reduce energy consumption in the province by creating a culture of conservation. One aspect of this plan was the installation of smart meters in homes and small businesses across Ontario. As of May 2014, 4.8 million smart meters had been installed in homes and at small businesses across Ontario.

Smart meters, like conventional meters, track the quantity of electricity used. However, the smart meters also log use by time of day. This feature allows for the introduction of time-of-use (TOU) pricing, which is intended to encourage ratepayers to shift electricity usage to times of off-peak demand, when rates are lower. Under TOU pricing, electricity rates are highest during the day, but drop at night, on weekends and holidays. The combination of smart meters and TOU pricing was expected to encourage electricity conservation and reduce demand during peak times by encouraging ratepayers to, for example, run the dishwasher or clothes dryer at night rather than in the afternoon, and set the air conditioner a few degrees warmer on summer afternoons. The reduction of peak demand could reduce the need to build new power plants, expand existing ones or enter into additional power purchase arrangements.

Our audit found that Smart Metering was rolled out by the Ministry with aggressive targets and tight timelines, without sufficient planning and monitoring by the Ministry, which had the ultimate responsibility to ensure that effective governance and project-management structures were in place to oversee planning and implementation. As yet, many of the anticipated benefits of Smart Metering have not been achieved and its implementation has been much more costly than projected.

Our other significant concerns included the following:

- The Ministry did not complete any cost-benefit analysis or business case prior to making the decision to mandate the installation of smart meters. In contrast, other jurisdictions, including British Columbia, Germany, Britain and Australia, all assessed the cost-effectiveness and feasibility of their smart-metering programs before proceeding.
- After the government announced the rollout of Smart Metering in April 2004, the Ministry prepared a cost-benefit analysis and submitted it to Cabinet. However, the analysis was flawed; its projected net benefits of approximately $600 million over 15 years were significantly overstated by at least $512 million.
- The Ministry has neither updated the projected costs and benefits of Smart Metering, nor tracked its actual costs and benefits, to determine the actual net benefits realized. As of May 2014, our analysis shows that overall smart metering-related implementation costs had reached almost $2 billion, with additional costs to come. Significant smart metering system development and integration challenges were encountered as the project progressed. The majority of these costs are passed on to the ratepayers in Ontario.
- The purpose of Smart Metering was to enable time-of-use (TOU) pricing, which was expected to reduce electricity demand during

peak periods. The Ministry set several targets to reduce peak electricity demand, but these targets have not been met.

- Ratepayers pay different amounts for the same power usage depending on where they live in Ontario, mainly due to different delivery costs of the 73 distribution companies. For example, a typical residential electricity bill could vary anywhere between $108 and $196 a month, mainly due to the variation in delivery costs ranging from $25 to $111 a month charged by different distribution companies to ratepayers.
- The difference between the On-Peak and Off-Peak rates has not been significant enough to encourage a change in consumption patterns. When TOU rates were introduced in 2006, the On-Peak rate was three times higher than Off-Peak; by the time of our audit, that differential had fallen to 1.8 times.
- The significant impact of the Global Adjustment on TOU rates is not transparent to ratepayers. Between 2006 and 2015, the 10-year accumulative actual and projected Global Adjustment stands at about $50 billion which is equivalent to almost five times the 2014 provincial deficit of $10.5 billion. The Global Adjustment represents an extra payment covered by ratepayers over the market price of electricity and it now accounts for about 70% of each of the three TOU rates.
- Under Smart Metering, a $249-million provincial data centre was established to collect, analyze and store electricity consumption data. However, most distribution companies used their own systems to process smart-meter data. The costs of this duplication—one system at the provincial level and another locally—are passed on to ratepayers.
- Additionally, we noted that many of Hydro One's billing complaints related to the increases in the TOU rates, connectivity issues between smart meters and associated communication systems, bills based on errors arising from smart meters connected to incorrect addresses, and other Hydro One billing system issues.

In our report, we directed recommendations to the Ministry, the Independent Electricity System Operator, Hydro One and the Ontario Energy Board. We recommended that business cases be prepared before proceeding with any major projects in the future; that the structure and pricing of the TOU program be re-evaluated; that Hydro One improve its systems for dealing with ratepayer complaints about billing and metering issues; that the impact of the Global Adjustment on electricity bills be transparent to ratepayers, and that the limitations and options surrounding the provincial data centre be reassessed.

3.12 Source Water Protection

In May 2000, seven people died and more than 2,300 became ill when the drinking water in Walkerton, Ontario, became contaminated with deadly bacteria. The primary source of the contamination was manure from a farm near a well that was the source of the town's drinking water. Two years later, Justice Dennis O'Connor's report from his related Commission of Inquiry recommended that the Ministry of the Environment and Climate Change (Ministry) review and approve source protection plans developed locally for each watershed in the province.

In response to Justice O'Connor's recommendations, the province enacted the *Clean Water Protection Act* in 2006. Soon after this Act was proclaimed, the Ministry established a Source Protection Committee in each of 19 regions in the province to develop, in conjunction with local conservation authorities, source water protection plans to assess existing and potential threats to source water and ensure that policies were in place to reduce or eliminate these threats. In 2002, the government also passed the *Nutrient Management Act* to manage nutrients in ways that better protect the environment, including source water. Applying more nutrients to crops can lead to a build-up in the soil, which can run off into surface waters or leach into groundwater, to the detriment of the environment and to human health.

Fourteen years after the Walkerton water crisis, the Ministry is still in the process of reviewing and approving the locally developed source water protection plans envisioned by the O'Connor commission and required by the *Clean Water Act, 2006*. As well, non-compliance with the *Nutrient Management Act* and the Ministry's weak enforcement increase the risk that source water is not being effectively protected.

Our significant issues included the following:

- The Ministry has no clear time frame when all source water protection plans will be approved. It also lacks a long-term strategy for funding and oversight of municipalities and conservation authorities to ensure that approved source water protection plans are implemented.
- Spills from industrial and commercial facilities pose a threat to water intakes into the Great Lakes, yet source water protection plans do not currently address them.
- Only a limited number of farms that produce and use manure are captured under the requirements of the *Nutrient Management Act*. For example, the farm that was the source of contamination in Walkerton would not be captured under the Act's regulations.
- In 2013/14, the Ministry inspected only 3% of the farms known to have to adhere to the Act's regulations for proper storage and application of manure. Of those farms, about half had non-compliance issues causing a risk or threat to the environment and/or human health. As well, we noted that the Ministry often did not follow up on issues of non-compliance, and rarely used punitive measures, such as issuing offence notices that could lead to fines in provincial courts.
- The Ministry is recovering only about $200,000 of the $9.5 million annual program costs associated with the taking of water by industrial and commercial users.

In our report, we recommend that the Ministry set a firm commitment for when source water protection plans should be approved; devise an approach to fund the implementation of many of the policies within approved plans; develop a strategy for updating the plans as needed to ensure that threats to source water, and the policies that address these threats, remain current; and charge industrial and commercial users of surface or groundwater an appropriate fee to recover the costs of administering programs that help sustain the amount of available water in Ontario.

With respect to the *Nutrient Management Act*, we recommended that the Ministry and the Ministry of Agriculture, Food and Rural Affairs develop an approach to gather information on the number of farms that need to manage nutrients in accordance with the Act; set targets that maximize the number of inspections being performed; use appropriate risk-based criteria for selecting farms for inspection; and apply available punitive measures to cases of non-compliance.

Chapter 2

Public Accounts of the Province

Introduction

Ontario's Public Accounts for the fiscal year ending March 31, 2014, were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act* (Act). The Public Accounts consist of the province's annual report, including the province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records.

My Office audits these consolidated financial statements. The objective of our audit is to provide reasonable assurance that the statements are free of material misstatement—that is, free of significant errors or omissions. The consolidated financial statements, along with our Independent Auditor's Report, are included in the province's annual report.

The province's 2013/14 annual report also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ended March 31, 2014, including some details of the government's accomplishments in the fiscal year. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1—statements from all ministries and a number of schedules providing details of the province's revenue and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- Volume 2—audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous audited financial statements; and
- Volume 3—detailed schedules of ministry payments to vendors and transfer-payment recipients.

My Office reviews the information in the province's annual report and in Volumes 1 and 2 of the Public Accounts for consistency with the information presented in the province's consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its annual report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The three supplementary volumes must be submitted to the

Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the province's 2013/14 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on September 22, 2014, meeting the legislated deadline.

In conducting our annual audit of the Public Accounts we work closely with the Treasury Board Secretariat and particularly with the Office of the Provincial Controller. While we might not always agree on financial reporting issues, our working relationship has always been professional and constructive.

Summary

We have focused this year on Ontario's growing debt burden, and the critical implications this has for the province's finances. Increases in the debt are attributable to continued government borrowing to finance deficits and infrastructure spending.

The government has been able to rely on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself continues to grow regardless of which measure—total debt, net debt or accumulated deficit—is used to assess it.

The negative consequences of a large debt load include:

- debt-servicing costs diverting funding away from other government programs;
- a greater vulnerability to any interest-rate increases; and
- potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive to borrow.

We take the view that the government should provide legislators and the public with long-term targets for addressing the province's current and projected debt, and we recommend that the government develop a long-term debt-reduction plan.

We also report in this chapter that the province's consolidated financial statements consistently complied with the standards of the Public Sector Accounting Board (PSAB) in all material respects. Successive governments have been diligent in their continued efforts to improve the clarity and completeness of the province's consolidated financial statements and annual reports.

It is our view that PSAB standards are the most appropriate for the province to use in preparing its consolidated financial statements. This ensures that information provided by the government about the deficit and surplus is fair, consistent and comparable to data from previous years, allowing legislators and citizens to assess the government's management of the public purse.

We note the ongoing challenges facing PSAB in reaching a consensus on what accounting standards are most appropriate for the public sector, and we discuss a number of significant accounting issues that will need to be addressed for future years. In this respect, we also outline PSAB initiatives in the development of new standards that might impact the preparation of the province's consolidated financial statements in future.

Ontario has introduced legislation on a number of occasions to establish specific accounting practices that are not, in some cases, consistent with PSAB. This has not at this time had a material impact on the province's consolidated financial statements. However, if the government introduces further legislated accounting treatments in future, this could become a greater concern to my Office. Standard-setters, governments and auditors must work together if we are to resolve financial reporting issues faced by governments and public-sector entities in the public interest.

The Province's 2013/14 Consolidated Financial Statements

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. We are pleased to note that the Independent Auditor's Report to the Legislative Assembly on the province's consolidated financial statements for the year ended on March 31, 2014, is free of reservations. It reads as follows:

> *Independent Auditor's Report*
>
> To the Legislative Assembly of the Province of Ontario
>
> I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, change in net debt, change in accumulated deficit, and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.
>
> *Management's Responsibility for the Consolidated Financial Statements*
> The Government of Ontario is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
>
> *Auditor's Responsibility*
> My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
>
> An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.
>
> I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
>
> *Opinion*
> In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2014, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

	[signed]
Toronto, Ontario	Bonnie Lysyk, MBA, CPA, CA, LPA
August 19, 2014	Auditor General

The above audit opinion is without any reservation, indicating that the consolidated financial statements fairly present the province's fiscal results for the 2013/14 fiscal year and its financial position at March 31, 2014. This "clean" audit opinion means that, based on our audit work, we have concluded that the province's consolidated financial statements were prepared in accordance with accounting standards recommended for governments by the Chartered Professional Accountants of Canada (CPA Canada). We are also communicating to users that the province's consolidated financial statements do not have any material or significant errors and provide a fair reflection of what has actually transpired during the year.

If we were to have concerns with the government's compliance with CPA Canada's recommended Public Sector Accounting Board (PSAB) standards, we may be required to issue an audit opinion with a reservation. An audit opinion with a reservation means significant financial transactions have not been recorded, have not been recorded properly or have not been disclosed properly in the notes to the province's consolidated financial statements.

In determining whether a reservation is needed, we consider the materiality or significance of the unrecorded, misstated or improperly disclosed items in relation to the overall consolidated financial statements. An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. Essentially, we ask the question "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission material.

To help make this assessment, we determine a materiality threshold. This year, as in past years and consistent with most other provincial jurisdictions, we set the threshold at 0.5% of the greater of government expenses or revenue for the year. If misstated items individually or collectively exceed the threshold, and management is not willing to make appropriate adjustments, a reservation in our Independent Auditor's Report would be required.

As a final comment, it is notable that in the past 21 years, all Ontario governments, regardless of the political party in power, have complied in all material respects with approved accounting standards. Accordingly, our Office has been able to issue "clean" audit opinions on the province's consolidated financial statements every year since the province adopted PSAB accounting standards in the 1993/94 fiscal year.

Ontario's Debt Burden

In our past three Annual Reports, we have commented on Ontario's growing debt burden. Our commentary has highlighted the consequences for the province of carrying a large debt load, including:

- debt-servicing costs reducing the availability of funds for other programs;
- greater vulnerability to the impact of interest rate increases; and
- potential credit-rating downgrades, which would likely increase borrowing costs.

Our commentary on Ontario's increasing debt has attracted little public attention. We believe one reason for this is primarily because of the focus placed on first eliminating Ontario's annual deficit.

Ultimately, the question of how much debt the province should carry and the strategies that would be used by the government to pay down its debt is one of government policy. However, this should not prevent the government from providing information that promotes further understanding of the issue and clarifies the choices it is making or will make to address it.

Financial Performance at March 31, 2014

The province projected an $11.7 billion deficit for 2013/14 in its 2013 Ontario Budget. The actual deficit was $10.4 billion, or about $1.3 billion less than the projection, because expenses were significantly lower than forecast while revenues dropped only slightly. Specifically:

- Expenses were $2.2 billion less than forecast, as follows:
    - $1 billion saved by not using the budget reserve;
    - $600 million less in education expenses due to lower than expected school board expenses;
    - $300 million in lower children and social services sector expenses; and
    - $300 million in reduced spending across all other ministries.
- Revenue was $900 million lower than forecast, as follows:
    - Taxation revenue was $2.0 billon lower than forecast due to a $1.4-billion decrease in Harmonized Sales Tax (HST) revenue resulting primarily from a downward revision to the federal estimate of Ontario's HST entitlement, as well as a $600-million decrease in personal income tax revenue due to lower than expected growth in labour compensation in 2013.
    - Government of Canada transfers to Ontario were $200 million below the budget forecast, owing primarily to revisions to what the federal government estimated it owed the province.
    - The above lower-than-forecast differences were offset by a $900-million increase in income from the government's business enterprises, mainly from Ontario Power Generation Inc. and Hydro One Inc., and $400 million more in other non-tax revenue.

Projected Financial Performance—The 2014 Budget

Given that the government plans to eliminate its annual deficit by 2017/18, as illustrated in **Figure 1**, and given that the cost of carrying debt is expected to rise from the current historic lows, we believe the time is now for the government, its legislators and the public to start a conversation about paying down the province's total debt.

Different Measures of Government Debt

Government debt can be measured in a number of ways. **Figure 2** shows the province's debt levels over the past five fiscal years, along with projections for the next four fiscal years:

Figure 1: Ontario Revenue and Expenses, 2009/10–2017/18 ($ billion)

Sources of data: March 31, 2014 Province of Ontario Consolidated Financial Statements, 2014 Ontario Budget and Ministry of Finance

	Actual					Plan	Medium-term Outlook		Extended Outlook
	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Total Revenue	**96.3**	**107.2**	**109.8**	**113.4**	**115.9**	**118.4**	**124.2**	**129.0**	**134.5**
Expense									
Program expense	106.9	111.7	112.7	112.3	115.8	119.4	120.1	120.2	119.4
Interest on debt	8.7	9.5	10.1	10.3	10.6	10.8	11.8	12.9	13.9
Total Expense	**115.6**	**121.2**	**122.8**	**122.6**	**126.4**	**130.2**	**131.9**	**133.1**	**133.3**
Reserve	–	–	–	–	–	0.7	1.2	1.2	1.2
Surplus/ (Deficit)	**(19.3)**	**(14.0)**	**(13.0)**	**(9.2)**	**(10.5)**	**(12.5)**	**(8.9)**	**(5.3)**	**0.0**

Figure 2: Total Debt, Net Debt and Accumulated Deficit, 2009/10–2017/18 ($ million)

Sources of data: March 31, 2014 Province of Ontario Consolidated Financial Statements, 2014 Ontario Budget and the Office of the Auditor General of Ontario

	Actual					Estimate			
	2009/10[1]	2010/11[1]	2011/12[1]	2012/13[1]	2013/14[2]	2014/15[1]	2015/16[1]	2016/17[1]	2017/18[3]
Total debt	212,122	236,629	257,278	281,065	295,758	310,549	326,600	337,800	345,600
Net debt	193,589	214,511	235,582	252,088	267,190	289,251	305,300	317,200	325,000
Accumulated deficit	130,957	144,573	158,410	167,132	176,634	189,765	198,600	204,000	204,000

1. 2014 Ontario Budget
2. March 31, 2014 Province of Ontario Consolidated Financial Statements
3. Office of the Auditor General of Ontario

- **Total debt** is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, T-bills and U.S. commercial paper. It provides the broadest measure of a government's debt load.
- **Net debt** is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- **Accumulated deficit** represents the sum of all past government annual deficits and surpluses. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

Total debt will eventually need to be paid off or refinanced. It becomes a particularly relevant measure when global capital markets tighten and credit is not readily available.

Net debt is a useful indicator of a government's financial position because it provides insight into the affordability of continuing to provide public services. Essentially, net debt reflects the amount of future provincial revenues that will be required to pay down a government's liabilities. A large net debt position reduces a government's ability to devote future financial resources to existing programs and public services, and as such is important in assessing a government's fiscal capacity.

The Ontario government considers the accumulated deficit to be a key measure for evaluating its financial position and its capacity to deliver future services because the accumulated deficit takes into account the acquisition of non-financial assets, such as tangible capital assets. Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA) the government is required to maintain a prudent ratio of provincial debt (defined in the FTAA as the accumulated deficit) to Ontario's gross domestic product (GDP), which is discussed in more detail in the next section.

Main Contributors to Net Debt Growth

The province's growing net debt since the end of the 2008/09 fiscal year is attributable to its large deficits in recent years, along with its investments in capital assets such as buildings, other infrastructure and equipment acquired directly or through public-private partnerships for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 3**.

Figure 3: Net Debt Growth Factors, 2008/09–2017/18 ($ million)

Sources of data: March 31, 2014 Province of Ontario Consolidated Financial Statements, 2014 Ontario Budget and the Office of the Auditor General of Ontario

	Net Debt Beginning of Year	Deficit/ (Surplus)	Net Investment in Tangible Capital Assets[1]	Miscellaneous Adjustments[2]	Net Debt End of Year	Increase/ (Decrease)
Actual						
2008/09	156,616	6,409	5,348	1,212	169,585	12,969
2009/10	169,585	19,262	6,285	(1,543)	193,589	24,004
2010/11	193,589	14,011	7,306	(395)	214,511	20,922
2011/12	214,511	12,969	7,234	868	235,582	21,071
2012/13	235,582	9,220	7,784	(498)	252,088	16,506
2013/14	252,088	10,453	5,600	(951)	267,190	15,102
Estimated						
2014/15	267,190	12,500	9,561		289,251	22,061
2015/16	289,251	8,900	7,149		305,300	16,049
2016/17	305,300	5,300	6,600		317,200	11,900
2017/18	317,200	–	7,800		325,000	7800
Total over 10 years	**–**	**99,024**	**70,667**	**(1,307)**	**–**	**168,384**

1. Includes investments in government-owned and broader public sector land, buildings, machinery and equipment, and infrastructure assets capitalized during the year less annual amortization and net gains reported on sale of government-owned and broader public sector tangible capital assets.
2. Unrealized Fair Value Losses/(Gains) on the funds held by Ontario Power Generation Inc. under the Ontario Nuclear Funds Agreement (ONFA), and accounting changes.

While annual deficits are projected to decline, the province is still increasing its borrowings annually to finance these deficits, replace maturing debt and to fund infrastructure. In fact, the net debt is projected to continue growing in absolute terms even after the province starts to run annual budget surpluses. This important fact should not go unnoticed by our legislators and the public. The province can begin paying down its debt only when such future surpluses provide cash flows over and above the amounts required to fund government operations and its net investments in tangible capital assets.

By the time the government projects it will have eliminated the deficit in 2017/18, Ontario's net debt will have doubled over a 10-year period, from $156.6 billion in 2007/08 to over $325 billion by 2017/18. We estimate total debt will exceed $340 billion by 2017/18.

To put this debt in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $12,000 per person in 2008 to about $23,000 per person in 2018. In other words, to eliminate Ontario's net debt, each Ontarian would need to contribute $23,000 to the provincial coffers.

Ontario's Ratio of Net Debt to GDP

A key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. This ratio of debt to the market value of goods and services produced by an economy (the gross domestic product, or GDP) measures the relationship between a government's obligations and its capacity to raise the funds needed to meet them. It is an indicator of the burden of government debt on the economy. If the amount of debt that must be repaid relative to the value of the output of an economy is rising—in other words, the ratio is rising—it means that the government's net debt is growing faster than the provincial economy and becoming an increasing burden.

Figure 4 shows that the province's net-debt-to-GDP ratio gradually fell over a period of eight years from a high of 32.2% in 1999/2000 to 26.2% in 2007/08. However, it has been trending upward since then, reflecting among other things, the impact of the 2008 global economic downturn on the provincial economy. Tax revenues fell abruptly and the government has increased its borrowings significantly since that time to fund annual deficits and infrastructure stimulus spending.

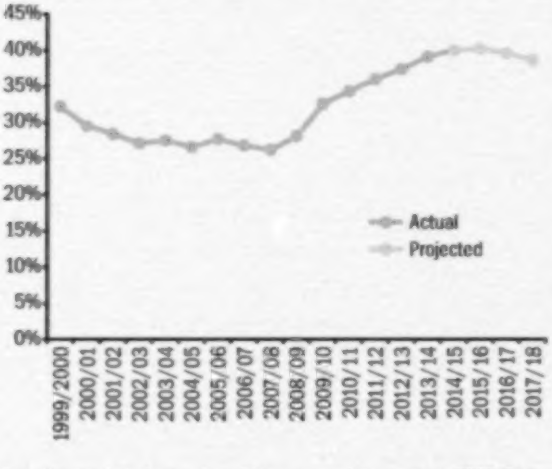
The net-debt-to-GDP ratio is projected to reach a high of 40.5% in 2015/16. After this peak, the government then expects the ratio to begin falling. Thus, provincial net debt growth will be less sustainable over the next two years, and will improve only if these longer-term projections are met. The Conference Board of Canada recently noted that this is by no means assured, given the Conference Board's less-than-optimistic revenue forecasts and the government's difficult-to-achieve expense forecasts, which are highly optimistic given the rate of growth in expenditures over the last decade. As we noted in our *2013 Annual Report*, many experts contend that a jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks when its net-debt-to-GDP ratio rises above 60%.

We caution it is somewhat of an oversimplification to rely on one measure to assess a government's borrowing capacity because it cannot take into account the province's share of both federal and municipal debts. If the province's share of federal and municipal debts were included in Ontario's indebtedness calculations, Ontarians' net debt would be much higher. However, consistent with the debt measurement methodologies used by most jurisdictions, we have focused on only the provincial government's net debt throughout our analysis.

An interesting exercise in assessing Ontario's ratio of net debt to GDP is to compare it with other Canadian jurisdictions. **Figure 5** shows the net debt of most provinces and the federal government, along with their respective ratios of net debt to GDP. Generally, the western provinces have a significantly lower net-debt-to-GDP ratio than Ontario and the Atlantic provinces, and Quebec has a significantly higher ratio than Ontario.

Figure 4: Ratio of Net Debt to Gross Domestic Product (GDP), 1999/2000–2017/18

Sources of data: March 31, 2014 Province of Ontario Consolidated Financial Statements and 2014 Ontario Budget



Note: Net debt includes broader-public-sector net debt starting in 2005/06.

Figure 5: Net Debt and the Net-debt-to-GDP Ratios of Canadian Jurisdictions, 2013/14

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Report and Consolidated Financial Statements of other provincial jurisdictions; Federal Budgets and budget updates, budgets of provincial jurisdictions; and the Office of the Auditor General of Ontario

	Net Debt ($ million)	Net Debt to GDP (%)
AB	(13,032)	(2.9)
SK	4,615	5.6
BC	38,777	17.2
NL	9,084	24.6
MB	17,344	28.8
NB	11,641	36.7
PEI	2,120	37.3
NS	14,762	37.8
Federal	682,300	36.3
ON	267,190	38.6
QC	181,965	49.9

Ratio of Net Debt to Total Annual Revenue

Another useful measure of government debt is the ratio of net debt to total annual revenues, an indicator of how much time it would take to eliminate the debt if the province spent all of its revenues on nothing but debt repayment. For instance, a ratio of 250% indicates that it would take 2½ years to eliminate the provincial debt if all revenues were devoted to it. As shown in **Figure 6**, this ratio declined from about 200% in 1999/2000 to about 150% in 2007/08, reflecting the fact that, while the province's net debt remained essentially the same, annual provincial revenue was increasing. However, the ratio has increased steadily since 2007/08 and is expected to top 245% by 2017/18. This increasing ratio of net debt to total annual revenue indicates the province's net debt has less revenue to support it.

Ratio of Interest Expense to Revenue

Increases in the cost of servicing total debt, or interest expense, can directly affect the quantity and quality of programs and services that government can provide: the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for program spending in other areas.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 7** shows, the province's interest-expense-to-total-revenues ratio decreased steadily in the decade ending in 2007/08, due mainly to a lower interest-rate environment. Because rates have been at historic lows since the beginning of this decade, both the actual and projected interest-expense-to-total revenues ratio have held, and are expected to hold steady at approximately 9.0% from 2009/10 to 2014/15 even as the province's total borrowings are expected to increase by approximately $98.0 billion, or 46%, from $212 billion to over $310 billion.

Based on the government's latest projections, the ratio is expected to gradually increase to 10% by 2015/16 and to 11% by 2017/18, when total debt is expected to be around $340 billion.

The province's debt also exposes it to further risks, the most significant being interest-rate risk. As discussed above, interest rates are currently at

Figure 6: Ratio of Net Debt as Percentage of Total Annual Revenues, 1999/2000–2017/18

Source of data: March 31, 2014 Province of Ontario Consolidated Financial Statements, 2014, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario

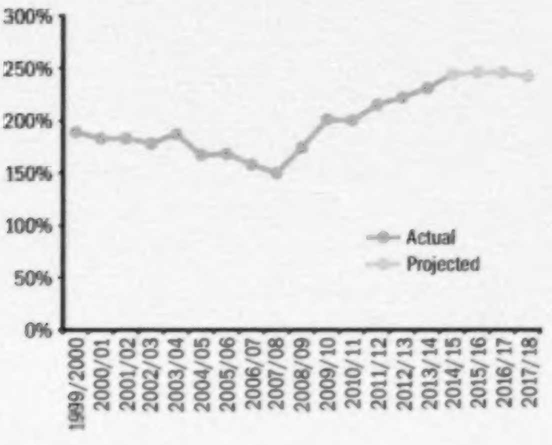
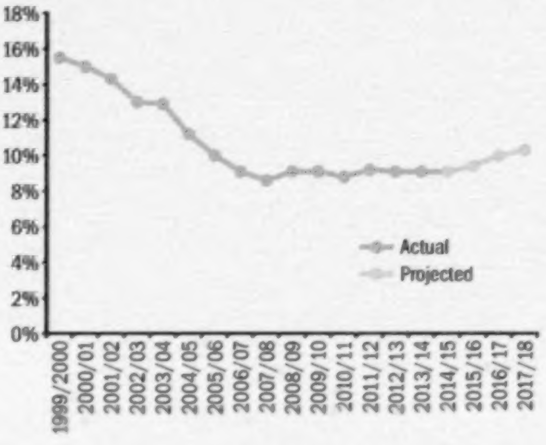


Figure 7: Ratio of Interest Expense to Revenues, 1999/2000–2017/18

Source of data: March 31, 2014 Province of Ontario Consolidated Financial Statements, 2014, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario



record low levels, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. However, if interest rates rise, the government will have considerably less flexibility to provide public services because a higher proportion of its revenues will be required to pay interest on the province's outstanding debt.

The increase in the ratio of interest-expense-to-revenue, expected to begin in 2015/16, indicates the government will have less flexibility to respond to changing economic circumstances. Past government borrowing decisions mean a growing portion of revenues will not be available for other current and future government programs.

As we noted last year, Don Drummond in his February 2012 report of the Commission on the Reform of Ontario Public Services said Ontario's debt is relatively small compared to that of many international jurisdictions, and the province is "a very long way from the dreadful fiscal condition of countries that have dominated the news over the past two years." But he warned: "So, however, were many of [these countries] at one time and, in some cases, surprisingly recently." For example, he wrote, "nations whose net debt was once similar to Ontario's current 35% of GDP include Britain (2004), the United States (2001), Japan (1997) and France (1993)...Today, debt burdens have reached 73 per cent in Britain and the United States, 131 per cent in Japan, and 81 per cent in France."

Drummond added: "We do not mean to be alarmist in noting the province's debt picture, only to point out that government debt burdens can rise quickly if they are not headed off early with appropriate action." These comments are particularly important for the Ontario government, its legislators and the public to heed because of the stark reality that debt becomes more difficult to control and rein in the larger it becomes.

Ontario accounts for almost half of all provincial net debt in Canada and almost 40% of Canada's population. The province's high debt load could be viewed as a national concern.

Consequences of High Indebtedness

High levels of indebtedness have consequences for governments, including the following:

- **Debt-Servicing Costs Take Funding Away from Other Government Programs:** As indebtedness grows, so does the amount of cash needed to pay the interest costs to service it. As higher interest costs consume a greater proportion of government resources, they limit the amount the government can spend on other things. To put this "crowding-out" effect into perspective, the government now spends more on debt interest than it does on post-secondary education, and these interest costs are growing. In fact, interest on debt is projected to be the fastest-rising cost for the government over the next four years, increasing by 7.1% per year from 2013/14 onward, although the government plans to hold other program spending increases to 0.8% over this period. Interest on debt represents almost half of the government's planned growth in expenses over the next four years, with interest costs increasing by $3.3 billion while program spending will increase by only $3.6 billion over the same period. The government's debt-servicing cost in 2008/09 was $8.6 billion and rose to $10.6 billion in 2013/14 during a period of declining and relatively low interest rates. It is projected to rise to $13.9 billion by the time the province plans to balance its books in 2017/18. As noted earlier, based on the government's latest projections, the proportion of its revenues needed to pay the cost of servicing total debt (the interest expense ratio) is expected to gradually increase to 10% of total expenditures by 2015/16 and further to 11% by 2017/18, when total debt is expected to be around $340 billion. This means that by 2017/18 the government expects to have to spend nearly one out of every nine dollars of revenue collected on servicing its debt. In 2007/08, only one of every 12 dollars of revenue collected was required to service debt.

- **Greater Vulnerability to a Rise in Interest Rates:** Over the past few years, governments generally have been able to benefit from record-low interest rates to finance higher debt loads. The province has been able to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. For example, Ontario was paying an average effective interest rate of about 8% in 1999/2000, but that has dropped to around 4% for 2013/14. However, if interest rates rise, the government will have considerably less flexibility in using its revenue to provide public services because a much higher proportion will be required to pay the interest on the province's much larger outstanding debt. For example, in its 2014 budget, the Ontario government noted that, at its current debt level, a 1% increase in rates would add an additional $400 million to its annual interest costs. Higher debt levels increase the province's sensitivity to such rate increases.
- **Potential Credit-rating Downgrades and Changes in Investor Sentiment:** We will address these issues in the following section.

Ontario's Credit Rating

Another analytical tool for assessing the province's debt burden and the risk it poses to the province's economic viability is its credit rating.

A credit rating is an assessment of a borrower's creditworthiness with respect to specified debt obligations. It indicates the capacity and willingness of a borrower to pay the interest and principal on these obligations in a timely manner. The province requires ratings from recognized credit-rating agencies to issue debt in capital markets. The three main credit-rating agencies are Moody's Investors Service (Moody's), Standard and Poor's (S&P), and DBRS.

Credit-rating agencies assess a government's creditworthiness largely based on its capacity to generate revenue to service its debts, and they consider such factors as that government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks. Investors in government debt use this credit rating to assess the likelihood the government will be able to pay its debt obligations.

Credit ratings influence borrowing conditions by affecting both the cost and the availability of credit. A credit rating has an impact on the cost of future government borrowing because a lower rating indicates that the agency believes the risk of the government defaulting on its debt is higher, and investors will accordingly demand a greater risk premium in the form of a higher interest rate before they will lend. A rating downgrade can also result in a reduction of the potential market for a government's debt, because some investors are unable—due to contractual or institutional constraints—or unwilling to hold debt below a certain rating.

Credit-rating agencies use letter designations to rate a jurisdiction's debt. For example, Moody's assigns credit ratings of Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, WR (withdrawn) and NR (not rated). Obligations rated Aaa are judged to be of the highest quality and subject to the lowest level of credit risk, whereas obligations rated C are the lowest rated and are often in default, with little prospect for recovery of principal or interest. S&P and DBRS assign similar credit ratings ranging from AAA to D.

In addition to a credit rating, the agency may issue a credit outlook that indicates the potential direction of a rating over the intermediate term, typically six months to two years. An outlook is not necessarily a precursor of a rating change but rather informs investors about the agency's view of the potential evolution of a rating—either up or down. A positive outlook means that a rating might be raised. A negative outlook means that a rating might be lowered, and a stable outlook means that a rating is not likely to change in the short term. When determining a rating outlook, the agency considers any changes in economic, financial or business conditions.

After the provincial budget was tabled again in July 2014, all three rating agencies reaffirmed their existing ratings for Ontario: Aa2 from Moody's, AA- from S&P, and AA (low) from DBRS. However, they have indicated that a downgrade will be almost inevitable eventually unless the province implements measures to address its high debt levels.

In July 2014, Moody's changed its outlook for Ontario from stable to negative and warned of a possible downgrade, saying the change reflected risks surrounding the province's ability to meet its medium-term fiscal targets. After several years of weak to moderate economic growth and higher-than-projected deficits, Moody's noted, the province was facing greater challenges returning to a balanced budget than anticipated. The rating agency added that the required revenue growth in an environment of slower-than-average economic growth and the necessity of imposing significant operating-expense controls to achieve fiscal targets would require a considerable government shift. It also noted that capital borrowing will place additional pressures on the province. Moody's concluded that Ontario's debt rating could be downgraded if the province fails to provide clear signals of its ability and willingness to implement the required operating-expense control measures to redress the current fiscal pressures.

Also in July 2014, Standard & Poor's affirmed its AA- rating with a negative outlook, citing the province's strong economy, strong financial management, budgetary flexibility, revenue support from the federal government, low contingent liabilities and high debt burden. However, the rating agency cautioned that it could lower Ontario's rating next year if the province does not materially exceed its fiscal targets, but noted that it could also revise the outlook to stable if the province achieves fiscal balance before 2017/18 and its total debt begins to decline from its 2016/17 expected peak of 270% of consolidated operating revenue. Echoing the comments of the other rating agency, S&P said the government's plan to balance the books "may not be achievable unless the province implements additional measures or takes more aggressive cost-containment initiatives in the next three years."

And in that same month, DBRS confirmed its provincial rating of AA (low) with a stable outlook supported by five consecutive years of lower-than-expected deficits, which "helped limit erosion in the credit profile" since the government introduced its 2010 plan to eliminate the deficit. However, similar to Moody's assessment, DBRS noted that the province's medium-term outlook has weakened due to slightly lower revenues and higher program spending projections, raising doubts about whether "the government will have the fortitude to make the difficult decisions required to adhere to its original targets."

Figure 8 shows Ontario's credit ratings relative to those of the other provinces and the federal government.

Figure 8: Target Date for Return to Balance and Credit Rating by Province

Source of data: Moody's Investor Services (Moody's), Standard and Poor's (S&P) and DBRS

	Moody's Investors Service	DBRS	Standard & Poor's	Target Date for Return to Balanced Budget
BC	Aaa	AA (high)	AAA	n/a (in surplus)
AB	Aaa	AAA	AAA	n/a (in surplus)
SK	Aaa	AA	AAA	n/a (in surplus)
MB	Aa1	A (high)	AA	2016/17
ON	Aa2	AA (low)	AA-	2017/18
QC	Aa2	A (high)	A+	2015/16
NB	Aa2	A (high)	A+	2017/18
NS	Aa2	A (high)	A+	not stated
PEI	Aa2	A (low)	A	2015/16
NL	Aa2	A	A+	2015/16
Federal	Aaa	AAA	AAA	2015/16

Impact of Lower Credit Rating/ Revised Outlook

While downgrades and poorer outlooks for the credit ratings theoretically increase future borrowing costs, there is no evidence yet suggesting Ontario's latest ratings have had a significant impact on its borrowing costs. For example, Ontario's interest costs on its bonds have remained relatively unchanged since the ratings were updated, indicating investors are still confident in the province's ability to meet its debt obligations. Ontario bonds remain relatively attractive because many other jurisdictions around the world were affected by the 2008 global financial downturn to a greater extent than Canada, and investors cannot improve their risk and return by switching their investments into these jurisdictions.

Foreign investors are interested in Canadian provincial bonds because the government of Canada is one of the few remaining jurisdictions in the world that has retained its Aaa/AAA credit rating, the highest that can be assigned. Investors associate Ontario debt with the perceived creditworthiness of the federal government, so Ontario benefits from the relative strength of investor faith in government of Canada debt. This means demand for Canadian government debt, both federal and provincial, has remained high, especially among investors looking for relatively low-risk investments.

Debt Reduction Plan

A government's debt has been described as a burden placed on future generations. This is especially so for debt used to finance operating deficits. Debt used to finance infrastructure investments is more likely to leave behind tangible capital assets that would benefit future generations.

It is important to note that while the government has presented a plan to eliminate its annual deficit in 2017/18 by restraining spending and is committed to then reducing Ontario's net-debt-to-GDP ratio to the pre-recession level of 27%, no clear strategy has been articulated for paying down its existing and future debt.

Regardless of what strategy is being contemplated, we believe the government should provide legislators and the public with long-term targets for its plans to address the current and projected debt burden.

RECOMMENDATION

In order to address the province's growing total debt burden, the government should work toward the development of a long-term total debt reduction plan.

MINISTRY RESPONSE

Since the last time the Office of the Auditor General reviewed these statistics in its *2013 Annual Report*, the province's net debt-to-GDP ratio has improved from 39.1% to 38.6% for 2013/14 and remained relatively unchanged for 2014/15 at 40.1%. This improvement is a direct result of better than forecast deficits, although the ratio for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to-GDP ratio to the pre-recession level of 27%.

The province has consistently beaten its annual deficit targets over the last five years resulting in borrowings and accumulated deficits that are $25 billion lower than they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5% from 2010/11 to 2013/14. The government has also addressed Ontario's infrastructure deficit through targeted capital investments.

OFFICE OF THE AUDITOR GENERAL RESPONSE

With regard to debt management, we believe that the government should also look at developing a long-term debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

Update on the Workplace Safety and Insurance Board

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by the *Workplace Safety and Insurance Act, 1997* (Act). Its primary purpose is to provide income support and medical assistance to workers injured on the job. The WSIB receives no funding from government; it is financed through premiums on employer payrolls.

Over the past decade, we have raised a number of concerns about significant growth in the WSIB's unfunded liability, which is the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers. Our *2009 Annual Report* discussed the risk that the growth and magnitude of the unfunded liability posed to the WSIB's financial viability, including the ultimate risk of the WSIB being unable to meet its existing and future commitments to provide worker benefits.

We also urged the government to reconsider the exclusion of the WSIB's financial results from the province's consolidated financial statements, particularly if there were any risk that the province might have to provide funding to ensure the WSIB remained viable. Excluding its financial results was based on the WSIB's classification as a "trust"; however, given its significant unfunded liability and various other factors, we questioned whether the WSIB was operating like a true trust. Including the WSIB in the government's consolidated financial statements would have a significant impact on the government's fiscal performance.

In September 2010, the WSIB announced an independent funding review to obtain advice on how to best ensure the long-term financial viability of Ontario's workplace safety and insurance system. The May 2012 report by Professor Harry Arthurs contained a number of recommendations, in particular calling for a new funding strategy for the WSIB with the following key elements:

- realistic assumptions, including a discount rate based on the best actuarial advice;
- moving the WSIB as quickly as feasible beyond a "tipping point" of a 60% funding ratio (tipping point being defined as a crisis in which the WSIB could not within a reasonable time frame and by reasonable measures generate sufficient funds to pay workers' benefits); and
- putting the WSIB on course to achieve a 90%–110% funding ratio within 20 years.

In response to our concerns and to the recommendations of the Arthurs report, in June 2012 the government passed Regulation 141/12 under the Act. Effective January 1, 2013, it required the WSIB to ensure it meets the following funding Sufficiency Ratios by specified dates:

- 60% on or before December 31, 2017;
- 80% on or before December 31, 2022; and
- 100% on or before December 31, 2027.

The regulation also required the WSIB to submit a plan describing the measures it would take to improve its funding Sufficiency Ratio. On August 8, 2013, the Minister of Labour formally accepted the WSIB's sufficiency plan.

The government also passed Ontario Regulation 338/13 in 2013. It came into force January 1, 2014, and changed the way the WSIB calculates the funding Sufficiency Ratio by changing the method used to value its assets. Our office concurred with this amendment.

The WSIB issues quarterly sufficiency reports and an audited sufficiency report to stakeholders annually. As at December 31, 2013, under Regulation 141/12, the WSIB reported a Sufficiency Ratio of 66%. Had the methodology of the new Regulation been retrospectively applied, the sufficiency ratio would have been 63.0%.

The WSIB's operational and financial performance was strong in 2013, as illustrated in **Figure 9**, which provides a summary of its operating results and unfunded liability compared to 2012.

The strong performance in 2013 was due to growth in premium revenues and improved return-to-work outcomes, better-than-expected investment returns (12.7% versus the target of 6.0%), and a one-time increase in the employee pension liability discount rate used to value the WSIB's employee benefits liabilities.

However, the WSIB's ability to achieve the prescribed funding Sufficiency Ratios and continue its strong financial performance remains subject to considerable uncertainty. For example, the WSIB notes that 57% of its comprehensive income is considered unusual and non-recurring in nature, and caution must be exercised in projecting current financial results into the future.

As a result of the government's and the WSIB's commitments to and progress in addressing the unfunded liability, we supported the continued classification of the WSIB as a trust for the 2013/14 fiscal year, and therefore the exclusion of the unfunded liability from the province's liabilities. However, we will continue to monitor its progress on meeting the required funding sufficiency ratios and re-evaluate our position as necessary.

Update on the Electricity Sector Stranded Debt

In Section 3.04 of our *2011 Annual Report*, we commented on the stranded debt of the electricity sector and the Debt Retirement Charge (DRC), a component of nearly every Ontario ratepayer's electricity bill.

The stranded debt arose under the *Energy Competition Act, 1998*, with the major restructuring of the electricity industry, including the breakup of the old Ontario Hydro into three main successor companies: Hydro One, Ontario Power Generation (OPG) and the Ontario Electricity Financial Corporation (OEFC). OEFC was given the responsibility to manage the legacy debt of the old Ontario Hydro and certain other liabilities not transferred to Hydro One or OPG.

OEFC inherited $38.1 billion in total debt and other liabilities from Ontario Hydro when the

Figure 9: Workplace Safety and Insurance Board Operating Results and Unfunded Liability, 2012–2013 ($ million)

Source of data: WSIB Financial Statements and WSIB Fourth Quarter 2013 Report to Stakeholders

	2012	2013
Revenue		
Premiums	4,106	4,387
Net investment income	1,459	2,042
	5,565	**6,429**
Expenses		
Benefit costs	3,782	2,873
Loss of Retirement Income Fund contributions	67	62
Administration and other expenses	333	361
Legislated obligations and commitments	276	286
Remeasurement of employee defined benefit plans	163	(840)
	4,621	**2,742**
Comprehensive Income (Loss)	**944**	**3,687**
Unfunded Liability	**14,061**	**10,638**

electricity market was restructured on April 1, 1999. Only a portion of the $38.1 billion was supported by the value of the assets of Hydro One, OPG and the Independent Electricity System Operator, leaving $20.9 billion of stranded debt not supported by assets.

The government's long-term plan to service and retire the $20.9 billion in stranded debt included dedicating revenue streams to OEFC to help pay down this debt:

- Future revenue streams from payments in lieu of taxes made by the electricity-sector companies (OPG, Hydro One and the municipal electrical utilities), and the cumulative annual combined profits of OPG and Hydro One in excess of the government's $520-million annual interest cost of its investment in the two companies, which were estimated at a present value of $13.1 billion.
- The remaining $7.8 billion, called the residual stranded debt, was the estimated portion of the stranded debt that could not be supported by the expected dedicated revenue streams from the electricity companies. The *Electricity Act, 1998* authorized a new Debt Retirement Charge (DRC) to be paid by electricity ratepayers until the residual stranded debt was retired.

This dual structure was intended to eliminate the stranded debt in a prudent manner while sharing the debt repayment burden between electricity consumers and the electricity sector.

Collection of the DRC began on May 1, 2002. The rate was established at 0.7 cents per kilowatt hour (kWh) of electricity and remains the same today. Currently, the OEFC collects approximately $950 million a year in DRC revenue. As of March 31, 2014, approximately $11.5 billion in DRC revenue had been collected.

Our *2011 Annual Report* focused on providing details about how much DRC revenue has been collected, the progress in eliminating the residual stranded debt, and when electricity ratepayers might expect to see the DRC eliminated.

Section 85 of the *Electricity Act, 1998* (Act) entitled "The Residual Stranded Debt and the Debt Retirement Charge" gave the government the authority to implement the DRC, and this same section specifies when it is to end. The key observations from our *2011 Annual Report* were based on our interpretations of the provisions of Section 85 of the Act and assessing whether these provisions had been complied with in both spirit and form. Specifically, Section 85 requires that the Minister of Finance determine the residual stranded debt "from time to time" and make these determinations public. When the Minister determines that the residual stranded debt has been retired, collection of the DRC must cease.

While the Act did not specify precisely how the determination of the residual stranded debt was to be done, it does allow the government, by regulation, to establish what is to be included in its calculation. We also observed that the term "from time to time" was not formally defined, and could be left solely up to the government of the day to determine. Since the passage of the Act more than a decade ago, we noted in our *2011 Annual Report*, the Minister had made no such public determination of the outstanding amount of the residual stranded debt, since April 1, 1999. Our view was that the intent of Section 85 was that ministers had an obligation to provide a periodic update to ratepayers on what progress their payments were having on reducing the residual stranded debt. We concluded that a decade was long enough, and suggested the Minister should provide ratepayers with an update.

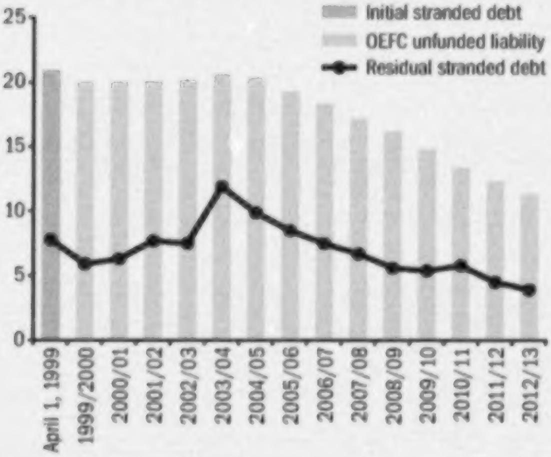
In response to these observations, the government introduced Regulation 89/12 under the Act on May 15, 2012, to provide transparency and meet reporting requirements on the outstanding amount of residual stranded debt. The new regulation formally establishes how the residual stranded debt is to be calculated, and requires annual reporting of the amount in *The Ontario Gazette*.

Commencing with the 2012 Ontario Budget, the government has provided annual updates of the residual stranded debt. The most recent update in the 2013 Ontario Economic Outlook and Fiscal Review repeated in the 2014 Ontario Budget presented the Exhibit, illustrated in **Figure 10**, reflecting annual residual stranded debt estimates from April 1, 1999, to March 31, 2013.

The 2013 Ontario Economic Outlook and Fiscal Review reported $3.9 billion of residual stranded debt as at March 31, 2013, and estimated the residual stranded debt would likely be retired between 2015 and 2018. On April 23, 2014, the government announced its intention to remove the DRC from residential users' electricity bills after December 31, 2015. The proportion of the residential rate class contribution to the DRC is approximately one-third, with commercial, industrial and institutional users contributing the remaining two-thirds. The charge would remain on all other electricity users' bills until the residual stranded debt is retired; the government estimated this will occur by the end of 2018, as per the 2014 Ontario Budget, in line with the previous estimate.

Figure 10: Residual Stranded Debt and OEFC Unfunded Liability for Each Fiscal Year Since 1999 ($ billion)

Source of data: WSIB Fourth Quarter 2013 Report to Stakeholders



MINISTRY RESPONSE

As the Ministry of Finance noted in its response to the Auditor's General's *2011 Annual Report*, the Ministry began moving forward in 2011 with a regulation under the *Electricity Act, 1998* (Act), on the requirement for an annual determination by the Minister of Finance of the residual stranded debt. An annual determination of residual stranded debt has been provided since then, starting with the determination as at March 31, 2011, which was provided in a news release on May 15, 2012. The Auditor General reports in 2012 and 2013 noted that the Auditor General was pleased to see increased transparency with respect to public reporting on the residual stranded debt.

The residual stranded debt has been reduced by an estimated $8 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $3.9 billion as at March 31, 2013, as published in the 2013 Ontario Economic Outlook and Fiscal Review. The Minister of Finance will continue to report annually on the residual stranded debt.

The Ministry of Finance also concurred with the Auditor General's 2011 report with respect to the Ontario Electricity Financial Corporation (OEFC) being in compliance with the Act in the use of Debt Retirement Charge (DRC) revenues. DRC revenues are used by the OEFC to perform its objectives under the Act, including servicing and retiring its debt and other liabilities. The OEFC's expenses included interest payments of about $1.45 billion in the 2013/14 fiscal year. On April 23, 2014, the government announced that it is proposing to remove the DRC cost from residential users' electricity bills after December 31, 2015, once the Ontario Clean Energy Benefit ends.

The DRC is to remain on all other electricity users' bills until the residual stranded debt is retired, and the 2014 Ontario Budget provided an estimate that this would occur by the end of 2018. The estimated timing for residual stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as future tax rates, interest rates and electricity consumption.

Update on the Pension Benefits Guarantee Fund

As discussed in our *2013 Annual Report*, the government has taken a number of steps over the past few years to place the Pension Benefits Guarantee Fund (PBGF) on a more stable footing. We commented that while the build-up of reserves in the PBGF was encouraging, considerable risk remained, given the PBGF's history of requiring government financial assistance and the precarious state of many of the defined-benefit plans in the province. However, we noted that the risk was mitigated by amendments made to the *Pension Benefits Act* in 2009 that specified that the PBGF's liabilities are limited to its assets. In 2010, the Ontario government provided the PBGF with a $500-million grant in order to stabilize the PBGF's financial position and pay its claims. Even though the 2009 legislation limits the province's responsibility to fund PBGF liabilities, it continued to provide assistance for the PBGF to cover its claims.

This year our Office conducted a value-for-money audit on the Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight. The audit comments on the PBGF can be found in Section 3.03 of this report.

Use of Legislated Accounting Standards

As discussed in our *2013 Annual Report*, some Canadian governments have begun to legislate specific accounting treatments in certain circumstances rather than applying independently established accounting standards. This includes the Ontario government, which several times in recent years has passed legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities.

We raised concerns about this practice in our *2008 Annual Report*, warning that it was a troubling precedent to adopt accounting practices through legislation rather than through an independent, consultative process, such as that followed by the Public Sector Accounting Board (PSAB). Although these legislated accounting treatments have not yet resulted in the province's consolidated financial statements materially departing from PSAB standards, the risk of such a material misstatement in future has increased. Here is a chronological synopsis of these developments in Ontario:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allowed the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year irrespective of PSAB accounting standards.
- In the 2009/10 fiscal year, the *Education Act* and the *Financial Administration Act* were amended. The *Education Act* amendments specified that the government could prescribe accounting standards for Ontario school boards to use in preparing financial statements. The *Financial Administration Act* amendments allow the government to specify accounting standards to be used by any public or non-public entity whose financial statements are included in the province's consolidated financial statements.
- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, a fully owned Ontario government business enterprise, to prepare its financial statements in accordance with U.S. generally accepted accounting principles effective January 1, 2012. The government has since provided the same direction to Ontario Power Generation Inc. (OPG), another fully owned government business enterprise. American accounting rules allow rate-regulated entities such as Hydro One and OPG to defer current expenses

for recognition in future years; the government's direction to adopt these U.S. rules came in anticipation of the planned Canadian adoption of International Financial Reporting Standards (IFRS), which currently do not allow for such deferrals.

- Ontario government regulations now require transfers for capital acquisitions and transfers of tangible capital assets to be accounted for by transfer recipients as deferred contributions. The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. We have historically supported this accounting because we believe that it best reflects the economic reality of the underlying transactions and it complies with generally accepted accounting principles. However, PSAB standards in this area are being interpreted differently by many stakeholders.
- The *Strong Action for Ontario Act (Budget Measures), 2012*, further amended the *Financial Administration Act*. These amendments provided the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements.

To maintain its financial credibility, we believe it is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting standards, specifically those set by PSAB, as most other governments in Canada do.

As the auditor of these statements, I am required by the *Auditor General Act* to provide an opinion on "whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles." If the government's reported deficit or surplus under legislated accounting standards is materially different than what it would be under generally accepted accounting principles, I will have no choice but to include a reservation in my audit opinion. My Office has been able to issue "clean" opinions on the government's financial statements for the past 21 consecutive years. I am hopeful that this will continue to be the case. We will continue to raise this matter in our Annual Reports.

Significant Accounting Issues

There are five significant accounting issues relating to our audit of the province's consolidated financial statements that we wish to bring to the Legislature's attention. Three of these are driven by accounting standard changes that will impact the way the province accounts for financial instruments, rate-regulated expenditure deferrals and liabilities for contaminated sites. The other two—retirement benefits expenses and corporation tax revenues estimates—relate to complex transactions materially affecting the province's fiscal results that present unique auditing challenges. We discuss these five areas in the following.

Financial Instruments

PSAB's project to develop a new standard for reporting financial instruments began in 2005. Financial instruments include provincial debt, and derivatives such as currency swaps and foreign-exchange forward contracts. A key issue for this project was whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government's annual surplus or deficit.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments, effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the recognition, measurement, presentation and disclosure of government financial instruments, and is similar to comparable private-sector standards.

One of its main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement of remeasurement gains and losses.

Some Canadian governments, including Ontario's, do not support the introduction of these fair-value remeasurements and the recognition of unrealized gains and losses. Ontario's view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings and that it has both the intention and ability to hold these derivatives until the debts associated with them mature. Accordingly, remeasurement gains and losses on the derivative and its underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government. The government argues that recording paper gains and losses each year would force the province to inappropriately report the very volatility the derivatives were acquired to avoid. This, in its view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to governments' concerns, PSAB committed to reviewing the new financial instruments standard by December 2013. PSAB completed its review of Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard. In short, PSAB does not intend to change the standard, despite the governments' concerns. However, it did defer the effective date for these new standards to fiscal years beginning on or after April 1, 2016.

We fully expect the Ontario government will account for its financial instruments in accordance with the new PSAB standards in 2016, and have requested the Treasury Board Secretariat to keep us informed of any significant issues identified as it works to implement them. We have recommended that the Treasury Board Secretariat assess the province's current accounting practices against the new standards in order to identify areas where the accounting practices may need to change and the potential impact of such change. We have also recommended early and continuous dialogue between our respective Offices to review areas where there may be possible differences in interpretation to ensure all matters are resolved before implementation of the new standards is required.

MINISTRY RESPONSE

The province made a submission to PSAB detailing the impact of PS 2601 and PS 3450 on its current accounting practices and fiscal results. The submission has been shared with the Office of the Auditor General and indicates that upon implementation both PS 2601 and PS 3450 will materially impact the province's fiscal results as well as the year-to-year volatility in both interest on debt and net debt.

The province notes that the International Accounting Standards Board issued IFRS 9, its standard on accounting for derivative instruments. The standard allows for the implementation of hedge accounting, which together with the other provisions in the standard appear to address the majority of the issues raised by the province. As such, we would welcome an effort by PSAB to review both PS 2601, Foreign Currency Translation, and PS 3450, *Financial Instruments*, with an objective of ensuring a closer alignment with IFRS 9. The Treasury Board Secretariat will work with the Office of the Auditor General as it continues to bring its concerns forward to PSAB.

Rate-regulated Accounting

Over the past few years, we have raised concerns about the appropriateness of recognizing rate-regulated assets and liabilities in the province's consolidated financial statements. Rate-regulated accounting practices were developed to recognize the unique nature of regulated entities such as electricity generators, transmitters and distributors.

Under rate-regulated accounting, a government-established regulator such as the Ontario Energy Board approves the prices that a regulated entity may charge customers, and often allows regulated entities to defer certain costs for recovery in future periods. Such deferred costs are typically set up as assets on the entity's statement of financial position. Under normal generally accepted accounting principles, these costs would be expensed in the year incurred.

Ontario's electricity sector includes two significant provincially owned organizations—OPG and Hydro One—that use rate-regulated accounting. The use of rate-regulated accounting, while still temporarily allowed in certain circumstances under Canadian generally accepted accounting principles, is under review by the International Accounting Standards Board (IASB) and Canada's Accounting Standards Board (AcSB).

PSAB standards allow OPG and Hydro One, which are defined as government business enterprises, to be included in the province's consolidated financial statements without adjusting their accounting policies to remove the impact of rate-regulated accounting. The impact of this allowance is significant; for example, OPG recognized $2.1 billion in net rate-regulated assets as of March 31, 2014. We have accepted this accounting treatment as allowable under Canadian generally accepted accounting principles, even though on principle we question whether rate-regulated assets should be considered *bona fide* assets for the purposes of the government's consolidated financial statements.

In recent Annual Reports we have commented that the era of rate-regulated accounting appeared to be ending for jurisdictions such as Canada that were converting to International Financial Reporting Standards (IFRS). Our comments were based on the fact that, in January 2012, Canada's AcSB reaffirmed that all government business enterprises should prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2012. At that time no standard specifically addressed rate-regulated activities, and by default therefore IFRS standards did not permit rate-regulated accounting.

However, the landscape continued to change. The United States has not adopted IFRS and continues to allow rate-regulated accounting. Partly in an effort to reconcile U.S. generally accepted accounting principles with IFRS, in March 2012 Canada's AcSB granted a one-year extension, to January 1, 2013, to the mandatory IFRS changeover date for entities with qualifying rate-regulated activities. In September 2012, it granted an additional one-year extension, to January 1, 2014.

In May 2013, the AcSB issued an exposure draft proposing to incorporate a new standard on regulatory deferral accounts based on a recently issued IASB exposure draft. The exposure draft proposed an interim standard for use by first-time adopters of IFRS with activities subject to rate regulation until the IASB completes its comprehensive rate-regulated activities project, which could take several years. In September 2013, the mandatory IFRS changeover date for entities with qualifying rate-regulated activities was extended once again, to January 1, 2015.

In January 2014, the IASB issued an interim standard, IFRS 14, *Regulatory Deferral Accounts*. This eased the adoption of IFRS by a rate-regulated entity by allowing it to continue to apply existing policies for its regulatory deferral account balances upon adoption of IFRS starting on January 1, 2015. Essentially, the interim standard provides a first-time adopter of IFRS with relief from having to derecognize their rate-regulated assets and liabilities until the IASB completes its comprehensive project on accounting for such assets and liabilities. However, the standard does require a rate-regulated entity to provide financial statements that present the results as if it were not applying rate-regulated accounting, with one-line adjustments at the bottom of the balance sheet and income statement showing the net effect of rate-regulated accounting. The

AcSB has confirmed that Canadian rate-regulated entities must adopt IFRS for fiscal periods beginning on or after January, 1 2015.

With the uncertainty regarding rate-regulated accounting, the Ontario government passed a regulation in 2011 allowing for and subsequently directing both Hydro One and OPG to prepare their financial statements in accordance with U.S. accounting standards. These standards specifically require rate-regulated entities to use rate-regulated accounting. However, as noted previously, Hydro One and OPG are recorded in the province's consolidated financial statements using Canadian generally accepted accounting principles that include rate-regulated accounting standards recommended by PSAB and AcSB.

Rate-regulated accounting would have an impact on the government's financial statements. Future reporting under IFRS that does not accommodate rate-regulated accounting may increase the volatility of Hydro One and OPG's annual operating results, which in turn could result in volatility of the Province's annual deficit (surplus), and this could impact the government's revenue and spending decisions.

Since the government controls both the regulator and the regulated entities in question, it has significant influence on which electricity costs the regulated entities will recognize in any given year, which could ultimately impact electricity rates and the annual deficit or surplus reported in the province's consolidated financial statements.

If the government continues to direct OPG and Hydro One to use U.S. generally accepted accounting principles in preparing their financial statements, and continues to use Canadian generally accepted accounting principles to prepare the province's consolidated financial statements, we will need to assess the differences that result from the government not following the accounting standards espoused by PSAB and AcSB. These differences will need to be quantified, and if material we would most likely treat them as errors in the consolidated financial statements.

My Office will work with the Office of the Provincial Controller to plan for any changes related to the consolidation of Hydro One and OPG as a result of changes in accounting standards.

Liability for Contaminated Sites

Contamination is the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. Contamination can come from many different sources, including commercial or industrial activity, waste disposal, improper chemical or fuel storage, and spills or leaks. Areas of land or water that are affected by hazardous waste or pollution in concentrations that exceed the maximum acceptable amounts under an environmental standard are referred to as contaminated sites. In many cases these sites were contaminated by prior activities whose environmental impacts were not understood or considered at the time.

Remediating a contaminated site refers to the actions taken to reverse or stop the damage being caused to the environment and human health. The actions may range from removing the hazardous material to managing the problem by restricting access, for instance by building a fence around it. The ultimate objectives of remediation are to remove the contaminant, minimize its risks to the environment and to the public, and allow for future use of the site.

PSAB issued a new standard, PS 3260, *Liability for Contaminated Sites*, for accounting for and reporting liabilities associated with site remediation. The new standard is effective for fiscal years beginning on or after April 1, 2014. The province plans to recognize these liabilities in the province's March 31, 2015, consolidated financial statements. We concur with the Secretariat's proposal to implement this standard retroactively with no restatement of prior periods, and agree it is supported by Section PS 2120, *Accounting Changes*.

A liability for remediation of contaminated sites must be recognized when, as of the financial reporting date, all of the following criteria are satisfied:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The new standard may significantly increase the amount of liabilities that will be recorded in the province's March 31, 2015, consolidated financial statements. The Office of the Provincial Controller Division (OPCD) of the Secretariat has the lead responsibility for implementing the new standard, and in December 2013 it outlined for us the approach it plans to use to identify and manage contaminated sites. It has been working closely with the five key ministries that own government land: the Ministry of Environment and Climate Change, Ministry of Economic Development, Employment and Infrastructure, Ministry of Natural Resources and Forestry, Ministry of Northern Development and Mines, and Ministry of Transportation. This co-ordinated approach should help in the identification of contaminated sites and in encouraging that funding for remediation is first directed at those sites with the greatest risk to the environment and public safety.

The standard will not be easy to implement because it may require the considerable use of site assessors, engineers and other specialists to determine if and how badly a site is contaminated. It will take time to establish the government's inventory of sites, and even more time to populate it with information sufficient to allow the government to reasonably estimate its future remediation costs. We expect the number of sites to be significant and the potential liabilities to be large. Therefore, our Office will work closely with OPCD over the coming year to assess whether the standard is implemented effectively and to ensure the estimated liability is appropriate.

Public Service Non-pension Retirement Benefits

In the latter part of the 2013/14 fiscal year, the government announced changes to its non-pension retirement benefits for Ontario public servants who receive a pension from the Public Service Pension Plan or Ontario Public Service Employees Union Pension Plan.

Under these changes, the government will transition to a benefits cost-sharing model from a full-cost model for employees retiring on or after January 1, 2017. The new model requires these retirees to pay 50% of their premiums for health, life and dental benefits; the government currently pays 100% of these premiums. The eligibility period for these benefits will also increase from 10 years to 20 for employees hired on or after January 1, 2017.

The government introduced these changes as part of its measures to manage compensation costs in order to achieve its annual deficit targets and balance Ontario's budget by 2017/18. The government also said these changes would bring public service retirement benefits more in line with practices in the private sector and other jurisdictions.

In accordance with PSAB standards, the province has accounted for the changes to retiree benefits as a plan amendment. Accordingly, the estimated actuarial gain of $1.1 billion arising from these changes reduced the future obligations to pay these benefits. For accounting purposes, this gain was recorded as a reduction in benefit expenses in the province's March 31, 2014, consolidated financial statements and was fully offset by unamortized experience losses of $1.1 billion; therefore, it had no fiscal impact on the 2013/14 deficit. The province's decision to make changes to retiree benefits will however reduce benefit expenses in future years.

We considered the evaluation of and accounting for this transaction could have a high audit risk due to the potential impact of the gain on the province's annual deficit. Accordingly, we engaged our own actuary expert to review the plan's report, the underlying assumptions and the benefit obligation calculations to confirm that the actuary estimates used in the plan were reasonable and met the standards of the Canadian Institute of Actuaries. This was in addition to the standard audit procedures we perform each year to assess the reasonableness of the retiree benefits obligation and expense calculations the government uses in preparing the province's consolidated financial statements and to confirm, among other things, that the projected benefit obligation calculations were prepared in accordance with PSAB accounting standards.

Based on our audit work, we were satisfied that the government has accounted for the changes to public service non-pension retiree benefits in accordance with PSAB accounting standards and that the estimated gain amount was determined appropriately.

Corporations Tax Revenue Estimate

Corporations carrying on business through a permanent establishment in Ontario must pay both federal and Ontario corporate taxes. Provincial corporations tax revenue is a significant source of total provincial revenues, as shown in **Figure 11**.

Figure 11: Corporations Tax Revenue and Total Revenues, 2009/10–2013/14 ($ million)

Source of data: Province of Ontario Consolidated Financial Statements

Fiscal Year	Corporations Tax Revenue	Total Revenues
2013/14	11,423	115,911
2012/13	12,093	113,369
2011/12	9,944	109,773
2010/11	9,067	107,175
2009/10	6,135	96,313

The federal government has administered Ontario's corporations tax since January 1, 2009. This single administration of corporate tax was introduced to streamline the tax system for businesses and reduce the compliance burden on Ontario corporations. Previously, corporations filed taxes with both Ontario's Ministry of Finance and the federal government's Canada Revenue Agency (CRA). Under single administration, Ontario corporations file only one tax return for both federal and provincial taxes with the CRA, which in turn assesses the taxes and remits Ontario's portion to the province. Ontario still retains administrative responsibility for two minor components of corporate tax: insurance premiums tax, paid primarily by insurance companies, and corporations' tax assessed in the current year for tax years 2008 and prior. The latter of these two amounts will eventually disappear.

The federally administered Ontario corporate tax represents a significant component of corporations tax revenue in Ontario. It is paid in instalments throughout the year based on the federal government's estimate of amounts owing to the province. The province has relied solely on the payments it receives from the federal government to record this component of corporations tax revenue in the province's consolidated financial statements. Because the federal government estimate is being made before the completion of the tax year, the federal government adjusts its earlier corporate tax revenue estimate. Final amounts assessed for the current tax year are not known until tax returns are processed in the following calendar year and finalized subsequent to that calendar year. A final adjustment payment for the tax year is made after this.

Since the federal government began administering Ontario's corporate taxes in 2009, corporations tax revenue reported in the province's consolidated financial statements has been lower than the amount that is ultimately earned by the province (owed by corporations) in three of the past four years, as shown in **Figure 12**. The differences are driven entirely by the difference in the estimates made by the federal government and the final entitlement amounts it determines at a later date.

Figure 12: Additional Federal Government Payments (Deductions) by Fiscal Year—Corporation Tax Revenue ($ million)

Source of data: Province of Ontario Consolidated Financial Statements and Office of the Auditor General of Ontario

Fiscal Year	Under (Over) Catch-up Payment (Deduction)
2010/11	682
2011/12	1,135
2012/13	1,998
2013/14	(6)

These corporate tax catch-up payments (deductions) for prior year underpayments (overpayments) are recorded in the province's consolidated financial statements in the fiscal year the payments are received or deducted. This accounting treatment is in accordance with PSAB standards on accounting for changes in an estimate; corporations tax revenue is such an accounting estimate.

A number of factors contribute to the difficulty in making a more accurate corporations tax revenue estimate. The estimation methodology is quite complex and requires input from all provinces and territories whose taxes are administered federally, the federal Department of Finance and the Canada Revenue Agency. In general, the federal government determines provincial and territorial entitlements based on its estimation of Canada-wide taxable income, provincial shares of corporate taxable income, jurisdictional tax rates and projected corporate profit growth. It then pays instalments to the provinces and territories based on these estimates. A small estimation difference in any of these factors can have a significant impact to the corporations tax revenue estimate calculated for Ontario due to its size and its corporations' financial profile.

The final amount Ontario is entitled to receive for a particular tax year is typically known about 18 months after the end of the tax year in question and after that year's corporations tax is recorded in the province's consolidated financial statements. Once the final tax assessments have been processed, a catch-up payment is made or a recovery payment is requested to close off a particular tax year. For example, in the 2013/14 Public Accounts, the federal government is predicting the actual final corporation tax assessments for the 2013 tax year 18 months before the actual figures are available, and pays the provinces and territories accordingly on the basis of that estimate.

Clearly, there is significant uncertainty with this estimate, given historical variances, but the Ministry of Finance does not believe it has at present a more accurate and reliable basis for estimating its corporations tax revenue entitlement. As well, because the province does not have direct access to the information the federal government uses to estimate Ontario corporations tax revenue, both the Ministry of Finance and our Office face significant challenges in assessing whether the corporations tax payments remitted to Ontario based on the federal estimate are the best estimate of the corporations tax revenue due to Ontario at the end of each fiscal year.

My Office has been working with the Ontario Ministry of Finance to determine whether there are better ways to estimate and verify corporate tax revenue. The Ministry has also been working with its federal counterparts to determine the causes of significant underpayments and whether the federal government's estimation process can be improved. We will continue to work with the Ministry of Finance on this matter and encourage the Ministry to work with the federal government to improve upon the annual year-end corporate tax revenue estimate.

Potential Changes to the Standard Audit Report

The International Auditing and Assurance Standards Board (IAASB) is proposing significant changes to the current standard for audit reports on financial statements. This new standard would require auditors to provide more information in their report on the organization, its financial statements, and the nature of the audit work performed. These proposed changes have been endorsed by the Audit and Assurance Standards Board (AASB), which sets Canadian auditing standards for financial statements. (As part of the strategy to harmonize Canadian accounting and auditing standards with international standards, the AASB incorporates new standards issued by the IAASB into its Canadian auditing standards as they are updated, making any necessary revisions to reflect circumstances in Canada.)

Currently, a financial statement audit report is generally a short, standardized report that describes the financial statements audited, the audit work performed, and the responsibilities of both management and the auditor. The auditor's opinion will either be "clean" (unmodified), indicating management has received a passing grade from the auditor, or it will contain a reservation (modified) along with an explanation for a failing grade.

One of the IAASB's key proposals is that the auditor's report for certain organizations, including reports issued on government financial statements, include a new section to communicate key audit matters that in the auditor's professional judgment were of most significance to the audit of the financial statements. These could include:

- areas identified as significant risks or involving significant management or auditor judgment;
- areas in which the auditor encountered significant difficulty, for instance in obtaining sufficient and appropriate audit evidence; and
- circumstances that required a modification to the auditor's planned audit approach, including as a result of a significant deficiency in internal control.

The 2013 IAASB exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing* applies to organizations whose shares, stock or debt are listed or quoted on a stock exchange for public trading. Nevertheless, the proposed standards do not restrict auditors from including key audit matters in their reports on the financial statements of non-listed entities.

We currently communicate key audit matters arising from our audit of the province's consolidated financial statements in this chapter of our annual report.

The final version of the new international standard on auditing, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, is expected to be issued in late 2014, and would affect financial statement reporting periods beginning on or after December 15, 2015. Once this new standard is endorsed by Canadian standard-setters, it would apply to the audit of the province's March 31, 2017, consolidated financial statements.

Public Sector Accounting Board Initiatives

This section outlines some additional items the Public Sector Accounting Board (PSAB) has been studying over the past year that might impact the preparation of the province's consolidated financial statements in the future.

Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instill discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible, and consistent manner. In 2011, PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current revenue and expense definitions, which they contend cause volatility in reported results and distort budget-to-actual comparisons. The task force's objective is to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

The task force's first step was to seek input from stakeholders on the building blocks of the conceptual framework; these will form the basis for evaluating the existing concepts underlying the measurement of financial performance. To this end, the task force has issued two consultation papers: *Characteristics of Public Sector Entities* and *Measuring Financial Performance in Public Sector Financial Statements*. Respondents to these consultation papers were in general agreement with the key proposals.

The task force's next step is to issue a third consultation paper focusing on the proposed definitions of the elements of financial statements, such as assets, liabilities, revenues and expenses. PSAB plans to issue the consultation paper in the second half of 2015.

Improvements to Not-for-profit Standards

The Accounting Standards Board (AcSB) and PSAB initiated a project in 2011 to improve accounting standards for not-for-profit organizations, including government not-for-profit organizations. These standards are followed by many organizations funded by the Ontario government. In April 2013, the Joint Not-for-Profit Task Force established to lead this project issued a statement of principles containing 15 proposals, the most significant of which included:

- Contributions received would be immediately recognized as revenue, unless the terms of the contribution give rise to an obligation that met the definition of a liability.
- Government not-for-profit organizations would present "net debt" indicators, a statement of net debt as well as budgeted information.
- Government not-for-profit organizations would follow the guidance in CPA Canada's *Public Sector Accounting Handbook* on the capitalization, amortization, write-down and disposal of tangible capital assets.
- Intangibles, works of art and historical treasures (including collections), and economic interests would continue to be recognized on the financial statements.

The statement of principles has generated high levels of interest from stakeholders in the public and private not-for-profit sectors because its proposals are expected to have far-reaching implications on the financial statements of not-for-profit organizations. For example, the statement of principles proposes to remove the not-for-profit organization's ability to defer capital contributions and recognize these amounts in revenue on a basis consistent with the amortization recorded on the related tangible capital asset. The statement of principles proposes that capital contributions should be recorded in revenue except in those circumstances where the contribution gives rise to an obligation that meets the definition of a liability. Many not-for-profit organization stakeholders are concerned that the organization's annual results will be distorted if it is not allowed to follow the traditional accounting practice of deferring capital contributions over the useful life of the related tangible capital asset. As well, the proposed change will challenge the province of Ontario's ability to hold its controlled government not-for-profit organizations accountable for balanced budgets in those later years when amortization is recorded on the tangible capital asset for which the capital contribution was recorded in revenue in an earlier period. The AcSB and PSAB received approximately 300 comment letters on this topic. They are analyzing this feedback and considering the next steps in the process.

Assets

Assets are one of the most critical elements of the financial statements. Asset recognition affects not only the statement of financial position, but also directly impacts revenues, expenses, surplus/deficit and other elements of the financial statement.

Currently, the PSAB accounting standards define assets as "economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained." PSAB acknowledged that the current guidance on this topic is limited and proposed to provide further guidance to help preparers and auditors determine whether an item meets the current definition of an asset.

In August 2013, PSAB issued a statement of principles that proposed additional guidance on assets, contingent assets and contractual rights. The statement of principles proposed:

- additional guidance on the definition of assets;
- disclosure requirements for assets; and
- definitions and standards on disclosure requirements for contingent assets and contractual rights.

The comment period ended in November 2013; based on the feedback, PSAB issued an exposure draft in August 2014 proposing three new standards: *Assets, Contingent Assets and Contractual Rights*.

There has been general support for the proposed principles and guidance in the statement of principles. The exposure draft proposes:

- enhanced guidance on the definition of assets;
- information about the types of assets that are not reported should be disclosed;
- contingent (possible) assets should be disclosed; and,
- contractual rights to future assets and revenues should be disclosed.

PSAB is seeking comments on the exposure draft until November 3, 2014.

Asset Retirement Obligations

The objective of this project is to develop a standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. For example, there may be obligations associated with decommissioning an electricity generating facility.

PSAB issued a statement of principles in August 2014 that proposes a new section on retirement obligations associated with tangible capital assets controlled by a public-sector entity. The main features of this statement of principles are as follows:

- A retirement obligation should be recognized when there is a legal, constructive and equitable obligation to incur retirement costs in relation to a tangible capital asset.
- Upon initial recognition, the entity would increase the carrying amount of the related tangible capital asset by the same amount as the liability. Therefore, the initial recognition of an asset retirement obligation will increase net debt reported by a public-sector entity.
- The estimate of a liability for retirement obligation should include costs directly attributable to retirement activities, including post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.
- The carrying amount of the liability for a retirement obligation should be reviewed at each financial reporting date.
- Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense.

PSAB asked stakeholders to submit comments on the statement of principles by November 21, 2014.

Related Party Transactions

PSAB initiated a project in September 2010 with the objective of issuing a new accounting standard that defines a related party in the context of the public sector and describes the measurement and disclosure requirements for related parties and related party transactions. Transactions between related parties may not be conducted under the same terms as in transactions between unrelated parties;

detailed disclosures allow users to assess the effect of related party transactions on a reporting entity's financial position and financial performance.

Following the publication of several documents for comment, including an exposure draft and a re-exposure draft, PSAB issued a second re-exposure draft for public comment earlier this year. This new re-exposure draft proposes to create two *Public Sector Accounting Handbook* sections on related party transactions: *Related Party Disclosures* and *Inter-entity Transactions*.

The objective of the first proposed section, *Related Party Disclosures*, is to define a related party and to provide guidance on disclosing sufficient information about the terms and conditions of related party transactions. The key proposals included in this section are:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control.
- Individuals who are members of key management personnel and close members of their family are included in the definition of related parties; however, the standard would not require disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered. The determination of whether an individual is included in key management personnel requires judgment.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure should include adequate information about the nature of the relationship with related parties involved in related party transactions, including the types of related party transactions that have been recognized, the amounts of the transactions classified by financial statement category; the basis of measurement used, the amount of the outstanding balances at period end, and the terms and conditions attached to these balances.
- Disclosure is required only when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclose and the level of detail to provide is a matter of judgment.

The purpose of the second section, *Inter-entity Transactions*, is to provide guidance on how to account for transactions that take place between organizations under the common control of a government entity. The most significant proposals are:

- Inter-entity transactions occurring in the normal course of operations and on similar terms and conditions to those adopted if the entities were dealing at arm's length should be recorded at the exchange amount. Transactions in the normal course of business generally relate to ongoing operating revenues and expenses and do not include the transfer of assets or liabilities.
- Transfers of assets or liabilities between entities are measured based on the amount of the consideration received in exchange:
  - if the consideration received approximates the fair value of the assets or liabilities transferred, the transaction should be measured at the exchange amount;
  - if the consideration received is nominal or nil, the transaction should be measured at the carrying amount by the provider and at the carrying amount or fair value by the recipient; and
  - in all other instances, the transaction should be measured at the carrying amount.
- Allocated costs and recoveries should be measured at the exchange amount.

PSAB accepted feedback on the revised proposals until mid-September 2014.

Statutory Matters

Under Section 12 of the *Auditor General Act*, the Auditor General is required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, Section 91 of the *Legislative Assembly Act* requires that the Auditor General report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

Legislative Approval of Expenditures

Shortly after presenting its budget, the government tables Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's planned spending. The Standing Committee on Estimates (Committee) then reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the Supply Act is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2014*, which pertained to the fiscal year ended March 31, 2014, received Royal Assent on March 3, 2014.

The Supply Act does not receive Royal Assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so the government usually requires interim spending authority prior to its passage. For the 2013/14 fiscal year, the Legislature passed the *Interim Appropriation for 2013-2014 Act, 2013* (Interim Act). The Interim Act received Royal Assent on June 13, 2013, and authorized the government to incur up to $116.3 billion in public service expenditures, $4.2 billion in investments, and $199.6 million in legislative office expenditures. The Interim Act was made effective as of April 1, 2013.

The Interim Act provided the government with sufficient authority to allow it to incur expenditures from April 1, 2013, to when the *Supply Act, 2014*, received Royal Assent on March 3, 2014. The spending authority provided under the Interim Act was intended to be temporary, and it was repealed when the *Supply Act, 2014*, received Royal Assent. The *Supply Act, 2014*, also increased total authorized expenditures of the legislative offices from $199.6 million to $203.9 million.

Special Warrants

If the Legislature is not in session, Section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council and approved by the Lieutenant Governor on the recommendation of the government.

No Special Warrants were issued for the fiscal year ended March 31, 2014.

Treasury Board Orders

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the books of the government for the fiscal year are closed. The government considers the books to be closed when any final adjustments arising from our audit have been made and the Public Accounts have been published and tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making transfers between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction to the amount available under the government's centrally controlled contingency fund.

Figure 13 summarizes the total value of Treasury Board Orders issued for the past five fiscal years.

Figure 14 summarizes Treasury Board Orders for the fiscal year ended March 31, 2014, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be printed in *The Ontario Gazette*, together with explanatory information. Orders issued for the 2013/14 fiscal year are expected to be published in *The Ontario Gazette* in December 2014. A detailed listing of 2013/14 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 4 of this report.

Figure 13: Total Value of Treasury Board Orders, 2009/10–2013/14 ($ million)

Source of data: Treasury Board

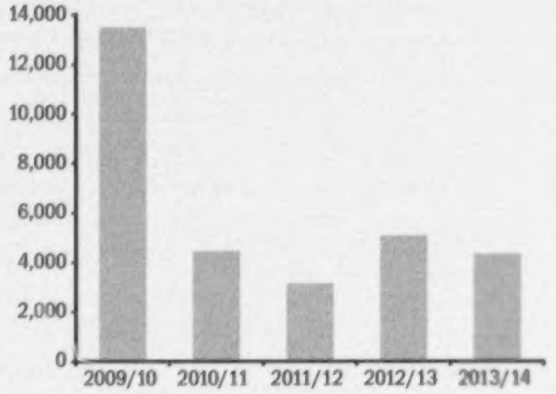


Figure 14: Total Value of Treasury Board Orders by Month Relating to the 2013/14 Fiscal Year

Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2013–February 2014	46	2,180
March 2014	35	1,427
April 2014	16	318
July 2014	1	407
Total	**98**	**4,332**

Transfers Authorized by the Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, Section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report.

Accordingly, **Figure 15** shows the transfers made within Vote 201 with respect to the 2013/14 Estimates.

Figure 15: Authorized Transfers Relating to the Office of the Assembly, 2013/14 Fiscal Year ($)

Source of data: Board of Internal Economy

From:		
Item 6	Sergeant at Arms and Precinct Properties	(18,500)
To:		
Item 3	Legislative Services	18,500

Uncollectible Accounts

Under Section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2013/14 fiscal year, receivables of $390.1 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2012/13 was $395.8 million.) The write-offs in the 2013/14 fiscal year related to the following:

- $146.7 million (2012/13 – $92.1 million) for uncollectible retail sales tax;
- $104.3 million (2012/13 – $60.4 million) for uncollectible corporate tax;
- $68.0 million (2012/13 – $86.5 million) for uncollectible receivables under the Student Support Program;
- $15.8 million (2012/13 – $15.1 million) for uncollectible employer health tax;
- $8.6 million (2012/13 – $48.0 million) for uncollectible receivables under the Ontario Disability Support Program;
- $6.6 million (2012/13 – $7.7 million) for uncollectible receivables related to two bankrupt nursing homes; and
- $40.1 million (2012/13 – $86.0 million) for other tax and non-tax receivables.

Volume 2 of the 2013/14 Public Accounts summarizes the writeoffs by ministry. Under the accounting policies followed in the preparation of the province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the writeoffs had already been expensed in the government's consolidated financial statements. However, the actual writeoff in the accounts required Order-in-Council approval.

Chapter 3

Reports on Value-for-money Audits

Our value-for-money (VFM) audits are intended to examine how well government ministries, organizations in the broader public sector, agencies of the Crown and Crown-controlled corporations manage their programs and activities. These audits are conducted under subsection 12(2) of the *Auditor General Act*, which requires that the Office report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of service delivery. Where relevant, such audits also encompass compliance issues. Essentially, VFM audits delve into the underlying operations of the ministry program or organization being audited to assess both their cost-effectiveness and the service level the public is receiving. This chapter contains the conclusions, observations and recommendations for the VFM audits conducted in the past audit year.

The ministry programs and activities and the organizations in the broader public sector audited this year were selected by the Office's senior management on the basis of various criteria, such as a program's or organization's financial impact, its perceived significance to the Legislative Assembly, related issues of public sensitivity and safety, and the results of past audits and related follow-up work.

We plan, perform and report on our value-for-money work in accordance with the professional standards for assurance engagements established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants), which encompass value for money and compliance work. They entail conducting the tests and other procedures that we consider necessary, including obtaining advice from external experts when appropriate.

Before beginning an audit, our staff conduct in-depth research into the area to be audited and meet with auditee representatives to discuss the focus of the audit, including our audit objectives and criteria. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. At the conclusion of the audit fieldwork, which is normally completed by late spring of that audit year, significant issues are discussed with the auditee and a draft audit report is prepared. Then senior Office staff meet with senior management from the auditee to discuss the draft report and the management responses to our recommendations. In the case of organizations in the broader public sector, discussions are also held with senior management of the funding ministry.

Once the content and responses for each VFM audit report are finalized, the VFM audit reports are incorporated as sections of this chapter of the Annual Report.

Chapter 3

Section 3.01

Ministries of Community Safety and Correctional Services, and the Attorney General

Adult Community Corrections and Ontario Parole Board

Background

Under the *Ministry of Correctional Services Act*, the Adult Community Corrections Division (Division) of the Ministry of Community Safety and Correctional Services (Ministry) supervises and provides rehabilitative programming and treatment to adult offenders serving sentences in the community, with an overall goal of helping offenders to not reoffend and reducing risk to the public.

During the fiscal year ended March 31, 2014, there were 37,490 newly sentenced offenders serving community-based sentences, such as probation, conditional sentences, parole and temporary absences. (See descriptions in **Figure 1**.) The average sentence length was 16 months for probation, eight months for conditional sentences, seven months for parole, and 35 days for temporary absences granted by the Ontario Parole Board. On an average day, the Ministry supervised more than 51,200 offenders, including 47,800 (93%) who were under probation orders; 3,200 (6%) under conditional sentences; and 200 (1%) released under parole or temporary absence permits of more than 72 hours.

Operating expenditures for the Division totalled $114 million for the fiscal year ending March 31, 2014, including $95 million (83%) for salaries and benefits. The Ministry paid about $5 million (4%) to community-based service providers for rehabilitation programs and services, such as anger management programs, substance abuse treatment, psychological therapy, and individual and group counselling. As of March 31, 2014, the Division had almost 1,200 staff, including 800 probation and parole officers in more than 100 probation and parole offices across Ontario, as well as about 50 officers stationed in courts and correctional institutions. (See **Figure 2**.)

The Ontario Parole Board (Board) is a quasi-judicial independent administrative tribunal that derives its authority from the federal *Corrections and Conditional Release Act* and the provincial *Ministry of Correctional Services Act*. Ontario and Quebec are the only provinces with their own parole boards; other provinces have made arrangements with the Parole Board of Canada. In the 2013/14 fiscal year, the Board held parole hearings for more than 1,000 eligible inmates, in which 35% of parole requests were granted, and hearings on almost 150 temporary absence requests, of which 55% were granted.

As of April 1, 2013, the Board along with four other Ontario adjudicative tribunals from the Ministry of Community Safety and Correctional Services and the Ministry of Government Services became part of a new organizational cluster called

Figure 1: Types and Number of Community-based Sentences for Newly Sentenced Adult Offenders, for the year ended March 31, 2014

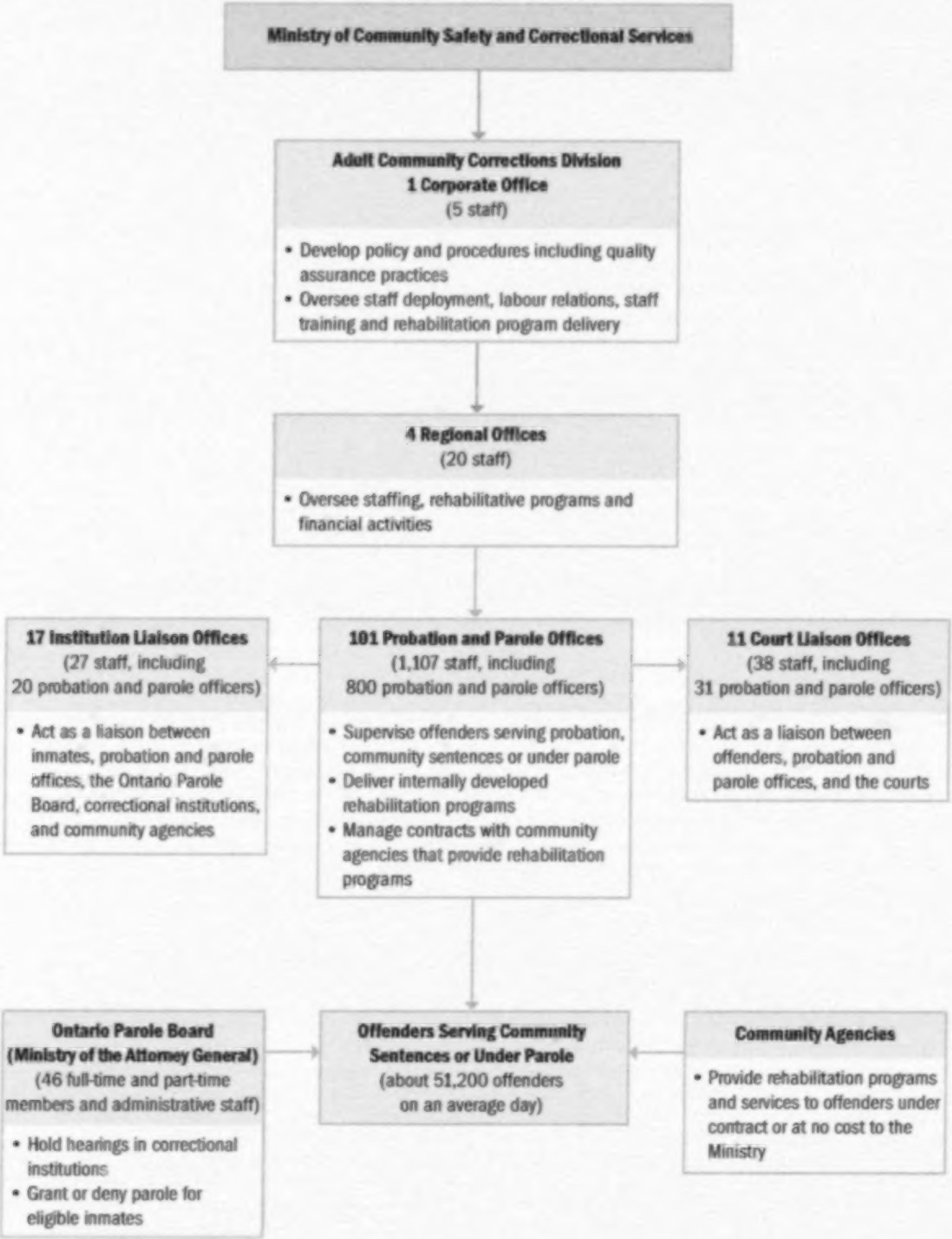
Source of data: Ministry of Community Safety and Correctional Services and the Ontario Parole Board

Type of Community-based Sentence	Description	# of Offenders	% of Offenders
Probation Order	Under the federal *Criminal Code*, an offender who gets a conditional discharge or a suspended sentence from a court typically receives a probation order authorizing the offender to remain at large in the community subject to conditions and under supervision. Maximum length of a probation order is three years. Probation orders include mandatory conditions, such as that the offender keep the peace and be of good behaviour, and possibly optional conditions, including that the offender report to a probation and parole officer, be prohibited from using drugs, alcohol, or weapons, perform community service, stay away from certain people or go for counselling or rehabilitation.	32,720	87
Conditional Sentencing	Under the *Criminal Code*, a conditional sentence is a jail sentence, except that the offender serves it outside of jail, under strict, jail-like conditions. A conviction is registered against the offender. A judge can only impose a conditional sentence under certain conditions, including if the sentence is for less than two years in jail, if the offender has not been convicted of a serious crime, and if the judge is satisfied that the offender's release would not threaten the safety of the community. Conditional sentences have mandatory conditions, and they usually also have strict restrictions, such as house arrest except to allow the offender to attend work, school or religious worship, or for medical reasons. Other conditions may be similar to those of a probation order. Every conditional sentence requires the offender to report to a probation and parole officer.	4,340	12
Provincial Parole	Under the federal *Corrections and Conditional Release Act*, parole is an opportunity for inmates in correctional institutions to serve the remainder of their sentences in the community with conditions and under supervision after serving at least one-third of their sentences. Parole from a provincial correctional institution can only be granted by the Ontario Parole Board, which will decide on the request from an inmate after assessing factors including the original crime committed, behaviour while incarcerated, and the offender's release plan for a safe and successful return to the community, particularly in relation to community support, rehabilitation programs and counselling. Inmates serving jail sentences of 180 days or more are automatically scheduled to be considered for parole by the Board, unless the inmate waives, in writing, the right to a hearing. Inmates who do not apply or who are refused parole are normally released without conditions after serving two-thirds of their sentences.	350	<1
Temporary Absence	Under the *Corrections and Conditional Release Act*, inmates in provincial correctional institutions can request temporary absence permits during their term of imprisonment. The Ontario Parole Board can grant unescorted absences from 72 hours up to 60 days, which may be renewed. In addition, a superintendent of a correctional institution can grant inmates escorted and unescorted absences less than 72 hours. Offenders may be granted temporary absences to participate in drug/alcohol treatment or other programs, upgrade education, attend work, or for medical or humanitarian reasons. Each temporary absence is regulated by a set of conditions with which the offender must comply. All temporary absences are monitored by the correctional institution.	80*	<1
Total		**37,490**	**100**

* The figure represents the number of temporary absences granted by the Ontario Parole Board only.

Figure 2: Key Players Involved in Community-based Sentences and Parole, 2014

Source of data: Ministry of Community Safety and Correctional Services and the Ontario Parole Board


Ministry of Community Safety and Correctional Services
Adult Community Corrections Division
1 Corporate Office
(5 staff)
• Develop policy and procedures including quality assurance practices
• Oversee staff deployment, labour relations, staff training and rehabilitation program delivery
4 Regional Offices
(20 staff)
• Oversee staffing, rehabilitative programs and financial activities
17 Institution Liaison Offices
(27 staff, including 20 probation and parole officers)
• Act as a liaison between inmates, probation and parole offices, the Ontario Parole Board, correctional institutions, and community agencies
101 Probation and Parole Offices
(1,107 staff, including 800 probation and parole officers)
• Supervise offenders serving probation, community sentences or under parole
• Deliver internally developed rehabilitation programs
• Manage contracts with community agencies that provide rehabilitation programs
11 Court Liaison Offices
(38 staff, including 31 probation and parole officers)
• Act as a liaison between offenders, probation and parole offices, and the courts
Ontario Parole Board
(Ministry of the Attorney General)
(46 full-time and part-time members and administrative staff)
• Hold hearings in correctional institutions
• Grant or deny parole for eligible inmates
Offenders Serving Community Sentences or Under Parole
(about 51,200 offenders on an average day)
Community Agencies
• Provide rehabilitation programs and services to offenders under contract or at no cost to the Ministry

the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO) under the Ministry of the Attorney General. The Board's operating expenditures as part of SLASTO for the year ended March 31, 2014, totalled approximately $2.4 million, with four full-time members and 27 part-time members.

Audit Objective and Scope

Our audit objective was to assess whether the Adult Community Corrections Division of the Ministry of Community Safety and Correctional Services (Ministry) and/or the Ontario Parole Board (Board) had effective procedures and systems in place to ensure:

- the risk of offenders serving their sentences in the community is mitigated by effective supervision;
- offenders receive appropriate rehabilitative support in accordance with their needs; and
- resources are efficiently used and program effectiveness is measured and reported on for public safety and offender rehabilitation.

Senior management at the Ministry and the Board agreed to our audit objective and criteria.

At the Ministry's corporate office, one regional office and five probation and parole offices in all regions, we interviewed senior managers and probation and parole officers, and reviewed systems, procedures, offender case files and contracts with community service agencies. We visited the Board's head office and two of its three regional offices, examined parole and temporary absences cases and interviewed board members and community corrections and correctional institution staff. We also observed hearings for parole and temporary absence requests at correctional institutions and we met with senior management of the Safety, Licensing Appeals and Standards Tribunals Ontario. Our review primarily covered case files from the last two fiscal years. We also considered the status and relevance of the recommendations we made in 2002, when we last audited the then Community Services Program and the then Ontario Parole and Earned Release Board, both of the then Ministry of Public Safety and Security. In addition, we focused on the status of certain issues we identified in 2008 for the Ministry's Adult Institutional Services, including its electronic supervision program, rehabilitation programs and inmates with mental illness in correctional institutions.

As part of our planning for this audit, we reviewed a number of the Ministry's internal audit reports on the Adult Community Corrections Division and the Board, and considered them in scoping our audit.

We interviewed representatives from key agencies that received provincial funding to obtain their perspectives on the rehabilitation of offenders in the community. We conducted research on community corrections and parole programs in other provinces and at the federal level and met with their representatives. We also engaged an independent expert on community corrections program delivery and contacted representatives from Statistics Canada.

Our audit did not cover temporary absences for inmates of less than 72 hours. Under the *Ministry of Correctional Services Act*'s regulations, this is a responsibility of correctional institutions; the Board approves temporary absences of 72 hours or longer.

Summary

There continues to be substantial room for improvement in the Ministry's supervision of and rehabilitative programming activities for offenders serving their sentences in the community that could reduce the risk to the public and lower the reoffend rate. We noted the Ministry has been implementing a number of quality assurance initiatives over the last three years, but as these measures are at varying stages of implementation, their impact is not fully realized.

Although the Ministry's programs' aim is to reduce the reoffend rate among adults serving their sentences in the community, the overall average reoffend rate for community-supervised offenders—those serving conditional sentences or on probation—increased slightly, from 21.2% in 2001/02 to 23.6% in 2010/11. As well, the rate of reoffending is much higher than the overall average of 23.6% for high- and very-high-risk offenders, at 42.7% and 60.3%, respectively, and the rate for medium-risk offenders is the same as the average. In total, very-high-risk, high-risk and medium-risk offenders represent the majority of newly sentenced offenders under supervision during 2013/14, and the Ministry noted that these new cases have increasingly complex needs. This represents more than 21,000 newly sentenced offenders, or 57%, including 2,400 very-high-risk offenders.

Furthermore, we noted that the Ministry defines "reoffending" in a somewhat narrow way that understates the rate at which those who have served community sentences reoffend. Ontario considers a person to have reoffended if he or she has been returned to provincial community supervision or incarceration on new convictions within two years of the end of their community sentences. (Thus, the reoffend rate of 23.6% for 2010/11 given above includes those who have reoffended under this definition as of 2012/13.) This definition does not include anyone who has only been charged with an offence or who is awaiting trial since completing their sentence. The two-year time limit excludes from the rate people convicted of crimes beyond the two years after their community supervision ended, even if they were charged during the two-year period. As well, the Ministry does not track offences committed outside Ontario. The Ministry does, however, have consistent recidivism data for a decade that is based on its provincial definition of reoffending.

While it would be useful to compare reoffend rates across Canada to assess the Ministry's performance, it is not possible because there is no commonly accepted definition across provinces. Comparing performance would be useful for determining whether Ontario's average daily spending on supervising and rehabilitating an offender, which, at $5.81, is the second-lowest among the eight provinces that had the highest number of offenders under community supervision, is cost-effective or whether spending so little puts the public at undue risk that offenders will reoffend.

To reduce public risk and lower its reoffend rate, the Ministry needs to better monitor the work of its probation and parole officers to ensure policies and procedures are followed, and to focus its available supervisory resources, rehabilitation programs and services on higher-risk offenders. This includes expediting its current efforts with respect to contract rationalization, policy revision and mandatory staff training. In addition, it needs to ensure its rehabilitation programs can be demonstrated to successfully help offenders to not reoffend. Details of our key observations were as follows:

- Processes were not sufficient to ensure that probation and parole officers completed risk assessments for offenders within the required six weeks of the offenders' initial intake appointment with a probation and parole officer. The timely completion of a comprehensive risk assessment is critical to establishing an effective offender management plan, which details supervision requirements and rehabilitation needs during the community sentence period. The Ministry also lacked appropriate information on why offender risk assessments were not completed on time and not kept up to date. While the Ministry had improved since our 2002 audit, we still noted that about 10% of offenders over roughly the last five years had not had risk assessments completed and 18% did not have offender management plans. We found that at the five offices we visited, risk assessments for sex and domestic violence offenders had often not been prepared within the required six weeks from the date of the initial intake appointment, including for 80% of sex offender cases we sampled at one office. As well, we found offender management plans had been prepared in some cases where risk assessments were not completed first.

- We noted that the average reoffend rate was as low as 20.3% in one region and as high as 29.7% in another. Regional information would help the Ministry target attention to regions with higher reoffend rates, and information in other categories would help target appropriate programs and services to specific higher-risk groups of offenders.
- The Ministry did not have reliable and timely information on offenders who breached conditions of their release, or information about the monitoring action taken by probation and parole officers to address these violations, unless an offender's actions resulted in a serious incident. Having this information would enable the Ministry to track what percentage of offenders successfully complete their community sentences as well as identify conditions that are commonly violated in order to assess its procedures for overseeing offenders with these conditions. As well, probation and parole officers did not use effective measures to ensure that more stringent conditions imposed on offenders, such as curfews and house arrest, were enforced.
- The Ministry's quality assurance initiatives have been ongoing over the last three years, but more work is required to bring case-management practices into alignment with policies and procedures. Reviews of probation and parole officers' handling of offender case management files, done by us and by local area managers, identified many deficiencies in adhering to supervision requirements. Lower-risk offenders were often over-supervised and higher-risk offenders under-supervised. We noted some cases in which reoffenders under supervision were charged with crimes that were more serious than their original offences. Many probation and parole officers were still not sufficiently trained to effectively oversee higher-risk offenders or those with mental health issues.
- The Ministry estimated that the number of offenders with mental health issues has grown 90% over the last 10 years to 10,000 offenders, representing about 20% of the number of offenders supervised each day. This number is likely underestimated, since the Ministry has not provided probation and parole officers with a validated tool to properly assess offenders for mental health issues. Although a probation and parole officer may refer an offender to an individual or group counselling session with a psychiatrist or to a program that focuses on their mental health issues, the Ministry lacks a provincial strategy to address offender mental health and related issues.
- The Ministry does not regularly track the availability of, and wait times for, rehabilitation programs and services at each of its probation and parole offices, and did not have in place a plan to ensure programs and services were available consistently across the province for either internally delivered Ministry-developed core programs or for the community delivered programs it pays for or makes referrals to. About 40 of 100 offices did not have available core programs, such as for anger management and substance abuse, to offer to their offenders, and the most that any one office offered was five of the 14 core programs available. The Ministry did not know if externally delivered programs were making up the shortfall of needed core programs at probation and parole offices. In addition, only two of the Ministry's core programs have received accreditation from its internal program research unit for their effectiveness in reducing offend rates.
- About 74% of offenders were scheduled to attend one or more programs or services during the 2012/13 fiscal year; however, the Ministry's Offender Tracking Information

System (OTIS) did not capture information on offenders' attendance at and completion of all programs and services, particularly for externally delivered programs, to which probation and parole officers referred them. The lack of information made monitoring of offenders' completion of rehabilitation activities and the effectiveness of those activities, at either internal core programs or those provided externally by service providers, more difficult. The Ministry does, however, have a mechanism in place outside of its electronic Offender Tracking Information System for the manual tracking of referrals to external programs.

- Contracts with the community service providers for rehabilitative programming were not adequately managed to ensure that the Ministry did not pay for more than the number of offenders who actually attended programs and services. The cost of programs, such as for anger management, sex offender treatment and substance abuse, varied significantly across the province, with costs incurred more than four to 12 times higher in some geographic areas than in other areas.
- The Ministry had been aware for more than 10 years of a number of significant security issues with OTIS with regard to user passwords, data encryption and monitoring users' activities and changes to the system; however, these issues had still not been resolved at the time of our audit. This puts offenders' and victims' information at risk, such that the information is vulnerable to unauthorized change or disclosure. We also noted that required security clearances were not obtained for persons who had access to offender information systems, including those with the ability to make changes to the records and systems.
- There was no system in place to ensure all information technology projects were delivered in accordance with pre-established timelines and budgets, as mandated by provincial government policy. Oversight of two IT projects—with a combined cost of over $4 million—that pertained to offender information systems, was weak, such that expenditures on the project were not being monitored and the completion of both projects was well overdue.
- We found low parole participation rates by inmates, with only half of the number of inmates applying to the Ontario Parole Board for a parole hearing in 2013/14 that had applied in 2000/01, when we last audited the Board. For low-risk qualifying inmates, granting parole could help in their rehabilitation, as well as help the Ministry lower inmate incarceration costs and reduce overcrowding in correctional institutions. Low parole participation rates can be attributed to several factors: the lengthy and onerous process in place for inmates to apply for a parole hearing, which makes it not worthwhile for most inmates because they receive short sentences; limited staff at correctional institutions to help inmates successfully manage the parole application process; and inmates being discouraged from applying for parole due to the Board approving on average over the last five years only 32% of inmates who had hearings, as well as the stringent conditions that would be imposed upon their release.

OVERALL MINISTRY RESPONSE

The Ministry thanks the Auditor General for her report and thoughtful recommendations. We are committed to addressing each of these recommendations as part of our ongoing work to ensure quality programs and services and to improve outcomes for offenders under community correctional supervision.

Community Services has identified opportunities for improvement across several critical areas. Quality assurance initiatives introduced since 2011 are now at various stages of implementation, and are identified and further reinforced by these recommendations.

The Auditor General's report confirms that more needs to be done. We will work closely with our partners in the justice sector, including Justice Technology Services, the Ministry of the Attorney General, the Ontario Parole Board and other jurisdictions to meet the needs and reduce risks of offenders, and better serve the people of Ontario.

Detailed Audit Observations

Adult Community Corrections

Minimal Progress in Lowering Reoffend Rate; Rate for High-risk Offenders is High

The Ministry's programs focus on reintegrating offenders into the community and reducing the rate at which they reoffend. The reoffend rate is commonly used to measure the performance of justice ministries' programs, including community corrections.

The Ministry defines Ontario's reoffend rate for offenders who have served community sentences as the percentage who return to provincial correctional supervision or incarceration on new convictions within the first two years after their community sentences ended. This definition is quite narrow and could result in the Ministry understating the rate at which those who have served community sentences reoffend. Ontario's definition includes only people who are convicted and subsequently sentenced to either incarceration or placed under community supervision. It does not include anyone who has only been charged or who is awaiting trial since completing their sentence. The two-year time limit in the Ministry's definition means that anyone convicted of a crime beyond two years after their community supervision is also excluded. Offences committed outside of Ontario are also not tracked in the Ministry's system.

The Ministry tracks the reoffend rate by two measures: whether the offender was on probation or conditional sentence; and the level of risk of reoffending that the Ministry assigned to the offender. However, the Ministry has not set any specific targets for the overall reoffend rate in order to measure its performance.

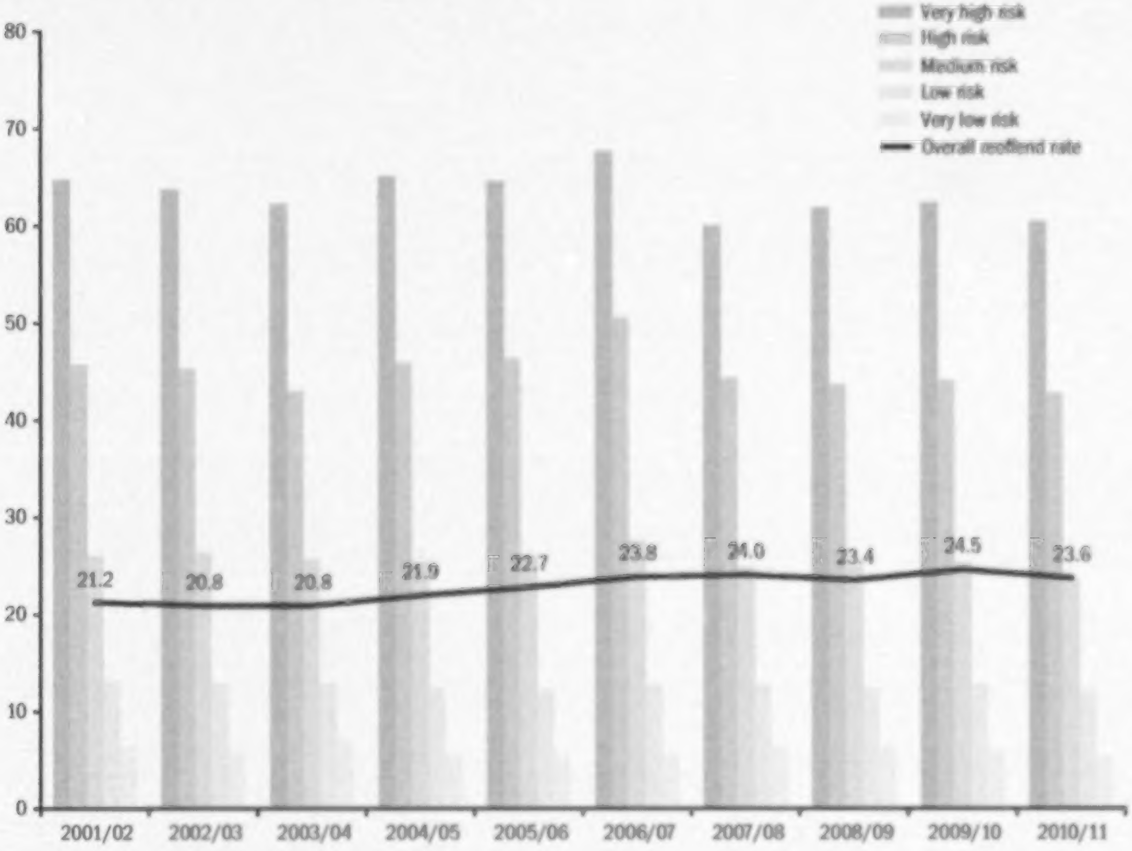
The Ministry started tracking its annual reoffend rate in 2001/02. The overall average reoffend rate for community-supervised offenders increased slightly by 2.4 percentage points, from 21.2% in 2001/02 to 23.6% in 2010/11. (The latter rate includes those who reoffended as of 2012/13, the two-year period after completing their community sentences.) The average reoffend rate for offenders who had received probation increased from 21.2% to 23.5% for the same period, and the rate for offenders who had had conditional sentences increased from 21.6% to 24.6%.

The overall average reoffend rate rose between 2002 and 2011 primarily because the number of medium- to very-high-risk offenders under community supervision increased from 43% in 2002 to 56% in 2011. As **Figure 3** shows, although there was a small improvement in the reoffend rate in each risk level over the period, the rates for reoffending remain significant for medium-, high- and very-high-risk offenders at 23.6%, 42.7% and 60.3% respectively. These three categories represent the majority of newly sentenced offenders under supervision, comprising 57%, or more than 21,000 newly sentenced offenders during 2013/14, including 2,400 very-high-risk offenders. These minimal improvements indicate that the Ministry's rehabilitation programs and its approach to changing offenders' behaviour after supervision need to be more effective.

The Ministry has neither tracked nor analyzed reoffend rates by criteria other than type of community sentence and risk level, despite the fact that information on rates by region, age, gender and mental health issues is available through the Ministry's Offender Tracking Information System (OTIS). We noted that the reoffend rate was as

Figure 3: Overall Reoffend Rate of Offenders under Supervision by Ministry-assessed Risk Level, for the years ending March 31, 2002–2011

Source of data: Ministry of Community Safety and Correctional Services



low as 20.3% in one region and as high as 29.7% in another. Regional information would help the Ministry target resources to regions with higher reoffend rates, and information in other categories would help target appropriate programs and services to specific groups of offenders.

No Way to Compare Programs Across Canada

We estimated that in the eight provinces that had the highest number of offenders under community supervision, the average daily cost per offender ranged from $4.54 in New Brunswick to $12.94 in Quebec. Ontario had the second lowest rate at $5.81. The Ministry lacks data for comparing its performance to other provinces, such as the reoffend rate and successful completion of community-based sentences; as a result, it is not able to assess whether Ontario's lower operating cost points to the fact that its programs are in fact cost-effective, or whether it means that Ontario is not allocating enough resources for effective community supervision and rehabilitation programs.

There is no common, generally accepted definition in Canada for measuring the reoffend rate of offenders under community supervision, and some provinces do not track it at all. Some provinces include the time during which offenders are still under supervision and others, like Ontario, only track new offences that occur after the supervision period and only for a limited time period.

British Columbia Community Corrections defines, measures and reports its reoffend rate as a new conviction within two years of the start of active community supervision. It publicly reported that its reoffend rate decreased slightly from 23.8% in 2011/12 to 23.2% in 2012/13, and that it has set a target to reduce the rate to 23% for 2013/14, 22.5% in 2014/15, and 22% in 2015/16. In Ontario, the Ministry publicly reported its reoffend rate only in 2008, for the 2004/05 year, because it was included in its strategic plan for 2008/13. It has not reported it since then. In addition, the Ministry has not established any targets for reducing the reoffend rate.

In the 2012/13 fiscal year, Manitoba's community corrections program reported a reoffend rate lower than Ontario's for both offenders on probation and those with conditional sentences, at 14% and 11% respectively. However, Manitoba calculates its reoffend rate somewhat differently than Ontario; Manitoba's rate accounts for only those people who reoffend and are sentenced to incarceration in the two years that follow their community supervision sentence, but not those who are sentenced to probation or conditional sentences.

In June 2011, Statistics Canada began a project to develop a common, national definition of what "recontact" with the criminal justice system entails, in order to help policy- and decision-makers. Statistics Canada defines a contact with the justice system as an official intervention by police (such as a charge), courts (such as a completed case) or corrections (such as resulting from a subsequent offence). Recontact is defined as subsequent contact with police, courts or corrections within a four-year period after the initial contact. Statistics Canada was in the process of collecting data from a number of jurisdictions, including Ontario, and expects to begin comparing data in March 2015.

The Ministry does not track and report on the number of offenders who complete their probation and conditional sentences without incurring further charges or breaching their conditions. In contrast, the Ontario Parole Board monitors the number of parolees who do not violate conditions and who successfully complete their parole. We noted that Correctional Service Canada measures and reports on the successful completion rate of offenders during community supervision. In 2012/13, it reported that 53% of offenders successfully completed their community supervision sentences.

RECOMMENDATION 1

In order for the Ministry of Community Safety and Correctional Services to enhance community safety through effective supervision and by reducing reoffend rates of offenders serving their sentences in the community, it should:

- strategically target its resources, programs and services to higher-risk offenders, with a long-term goal of reducing their high reoffend rates;
- compare and analyze Ontario's expenditures and program outcomes for supervising and rehabilitating offenders with other jurisdictions to assess whether the programs are delivering services cost-effectively; and
- work with other provincial and federal community correctional counterparts to develop common measures to use to publicly report on its program results and set targets for improvements, particularly for its reoffend rate.

MINISTRY RESPONSE

Through its Probation and Parole Service Delivery Framework (PPSDF) established in 2000, the Ministry works to apply the highest level of resources to offenders who are assessed as having the highest risk to reoffend. The PPSDF uses an evidence-based approach to address known risk factors in reoffending through targeted interviewing and intervention techniques, including programming in the areas of anti-criminal thinking, substance abuse, and anger management, and with a particular focus on domestic violence and sexual offending.

Offenders under community supervision have shown increasingly higher risk levels and more complex needs. The Ministry has undertaken reviews of policies involving supervision of higher-risk cases, such as domestic violence and sex offenders. Policy revisions are based on reviews of current best practices in managing complex cases. The Ministry introduced a new Domestic Violence Policy in 2012, and an enhanced Sex Offender Policy in March 2014, both of which require the completion of additional assessment tools and mandatory staff training.

By focusing on the core themes of our mandate, and through better streaming and risk assessments of clients, we are seeing quantifiable and qualitative results. While the overall reoffend rate has increased slightly due to an increase in the proportion of higher-risk offenders to lower-risk offenders, reductions in reoffending rates have been realized in each of the risk categories, including offenders in the high- and very-high-risk category.

We are continuing the joint initiatives underway with police and Crown Attorneys on our highest-risk cases to keep victims and communities safe. In addition, we introduced a new low-risk initiative to ensure the appropriate level of supervision for low-risk offenders.

The Ministry will continue working with jurisdictional partners to develop a standard operational definition of the measurement of recidivism and to identify and share programs that have been shown to be successful in reducing reoffending. Recognizing the many challenges associated with varying client population types and levels of technological and research supports across the country, we will open a dialogue with jurisdictional partners to review overall costs in program delivery.

The Ministry will report publicly on its reoffending rates for Community Services in 2015.

Offender Risk Assessments and Management Plans Are Not Completed Consistently

Ministry policy requires a probation and parole officer to complete a risk and needs assessment within six weeks of a new offender's initial intake appointment using a Level of Service Inventory—Ontario Revision (LSI-OR) tool. Offenders are interviewed and case files are reviewed to assign scores on eight factors: criminal history, employment/education, family/marital status, leisure/recreational interests, companions, criminal attitude/orientation, substance abuse habits and antisocial patterns. The aggregate score is used to categorize an offender's risk of reoffending into one of five levels that range from very low to very high. The LSI-OR risk assessment becomes the basis for the probation and parole officer to prepare an offender management plan that outlines supervision requirements and rehabilitation programming and services the offender requires during the sentence. The Ministry's policy requires the LSI-OR to be updated annually or when changes in the offender's circumstances occur that could change the level of risk posed by the offender.

At the time of our audit, we found that about 15,000, or 10%, of 157,000 offenders admitted from April 1, 2009, to January 31, 2014, to community supervision for more than 90 days had not had LSI-OR assessments completed at all by March 31, 2014. About 2,380 of these 15,000 offenders were admitted during the first 10 months of 2013/14 and they had not had assessments completed as of March 31, 2014. Following our audit field work, the Ministry reported that as of June 30, 2014, about 1,980, or 4%, of LSI-ORs for more than 47,300 offenders under supervision at the time were still overdue, and about 21% of LSI-ORs that required annual updates were overdue.

The Ministry told us there could have been legitimate reasons for the lack of LSI-ORs, such as that an offender may have had a deportation order, outstanding warrant, was detained, or was hospitalized. However, the Ministry could not identify these exceptions without reviewing individual offender case files.

We visited five offices and reviewed a sample of cases the Ministry had already identified as overdue for completion of an LSI-OR assessment. We found that the number of cases in which no valid reason was documented ranged from 8% at one office to a high of 60% at another. In cases we sampled that had since completed the LSI-OR, it had taken the probation and parole officers from nine to 35 weeks, instead of the mandated six weeks, to complete the assessment, and the case files contained no explanations for the delay.

Similarly, we also found that from April 1, 2009, to January 31, 2014, about 29,000, or 18%, of the 157,000 offenders admitted for community sentences of more than 90 days had not had offender management plans prepared. The Ministry had no regular reporting mechanism to ensure that offender management plans were completed on a timely basis. LSI-ORs should be in place before probation and parole officers complete offender management plans. We reviewed a sample of cases where the Ministry had identified that LSI-ORs had not been done and we were surprised to find offender management plans had been completed in some of those cases. Although we questioned their completeness and usefulness because no risk assessment had been done, we were advised by the Ministry that some probation and parole officers may begin completing the offender management plan earlier by entering the court-ordered supervision conditions and then adding the rehabilitation needs later, after the risk assessment is complete.

The Ministry's internal policies for domestic violence offenders and sex offenders, which were updated in October 2012 and March 2014, respectively, require or encourage probation and parole officers to prepare specialized risk assessments in addition to the LSI-ORs prior to developing offender management plans; however, the Ministry's monthly management reporting did not include monitoring for their completion. Our testing found that probation and parole officers were not complying with this requirement for these offenders. For instance, at the five offices we visited, we found that the percentage of domestic violence offender cases we sampled with a specialized risk assessment completed ranged from only 17% to 60%. As well, the percentage that had not had LSI-ORs completed within six weeks of intake ranged from 33% to 67%. It took between nine and 18 weeks to complete these LSI-ORs. With respect to sex offenders, completion of specialized risk assessments ranged from none completed at two offices to 100% at another. As well, the percentage of LSI-ORs for sex offenders that were not completed within six weeks ranged from 14% to 80%, and some took from 12 to 30 weeks to complete.

RECOMMENDATION 2

In order to ensure timely assessment of risks to the public of offenders supervised in the community and to establish the appropriate level of supervision and rehabilitation programming and services needed, the Ministry of Community Safety and Correctional Services should strengthen its systems and procedures to allow management to routinely make sure that probation and parole officers have completed and updated all required risk and needs assessments and offender management plans, particularly for higher-risk offenders.

MINISTRY RESPONSE

Improving case supervision is a top priority in the quality assurance initiatives that are underway. A revised Case Management Review (CMR) Policy and scoring guide were implemented in December 2013, to improve consistency across the province as well as to support timely feedback to officers on offender case management. The Ministry will continue its efforts to monitor the timeliness and quality of risk assessments, and will work toward enhanced oversight through the CMR process as well as changes to monthly statistical reports, to improve the currency of LSI-OR assessments and offender management plans, particularly for higher-risk offenders.

To appropriately stream cases for supervision, the Ministry uses the Level of Service Inventory—Ontario Revision (LSI-OR), which is a validated risk assessment tool that is proven to be an accurate predictor of risk for future reoffending. A new LSI-OR application that will enable probation and parole officers to identify which clients are in need of an initial assessment or reassessment is being rolled out across Community Services, and will be fully implemented by December 2014. It will also provide the option for local managers to approve assessments prior to finalization, where appropriate. As the report noted, more recently the Ministry has substantially improved in ensuring that offender risk assessments are completed.

Weak Monitoring of Whether Offenders Comply with Conditions

The work of probation and parole officers is typically done in the office, during regular business hours (9 a.m. to 5 p.m., Monday to Friday). The principal duties of probation and parole officers regarding offender supervision involve meeting with offenders, most often face-to-face within an office setting, and speaking with administrative, professional and personal/family contacts who can validate the information provided by the offender and add to it.

When an offender has violated a condition of community supervision, a probation and parole officer could decide that action is not necessary, or he or she could do one of the following, depending on the severity of the violation: issue a verbal or written caution; increase the intensity of supervision; apply to the court or the Ontario Parole Board to vary the conditions of the community supervision; or lay a charge. In some cases when an offender cannot be located, a warrant for the offender's arrest is initiated.

The Ministry does not have reliable and timely information on offenders who breach conditions and the action taken by probation and parole officers. Having this information would enable the Ministry to track what percentage of offenders successfully complete their community sentences—that is, complete them without breaching any conditions—as well as identify conditions that are commonly violated in order to assess its procedures for overseeing offenders with these conditions. OTIS does not provide statistics on the number and the types of conditions that were completed successfully or that were violated. The Ministry was only able to estimate that there were about 3,370 charges laid with respect to the enforcement of 46,600 probation orders, and there were about 350 allegations of breaches of the 3,340 conditional sentences in 2012. However, the Ministry informed us that both figures were not used for management decisions because they were not reliable given that they were extracted from OTIS, which is not used consistently by officers to track enforcement.

We sampled a number of domestic violence and sex offence cases and found that, in general, the offenders were reporting as required to their probation and parole officers. However, we noted two exceptions where the ministry policy requiring sex offenders to report twice per month was not met. At one office we visited, we found two cases where the offenders had reported in only once during October 2013. There was no documentation in these files to explain the deviation from policy or to indicate there had been enforcement action taken.

In conditional sentencing, curfews and house arrest are the most common conditions imposed by the courts. However, for the cases we sampled, probation and parole officers did not adequately ensure that the offenders had adhered to these conditions.

Greater use of the Ministry's Electronic Supervision Program (ESP), in which an offender wears a tamper-resistant ankle-bracelet transmitter, could help officers monitor compliance with curfew and house arrest conditions. However, the use of ESP can only be imposed by a court, and its use is very limited. For instance, in 2012/13, approximately 95% of the 4,650 offenders serving conditional sentences in the community had curfews and/or house arrest imposed by a court as a condition; however, only about 320, or 7%, of these offenders were required to be monitored using the ESP.

The Ontario Parole Board imposed the ESP more frequently: in 2012/13, 85% of offenders granted parole with either curfew or house arrest as a condition also had ESP imposed as a condition.

Without the use of ESP, probation and parole officers are expected to monitor house arrest or curfew cases by calling offenders or visiting them at home, typically after hours. We found that, generally, probation and parole officers do not use this approach, and instead rely on local police to identify when offenders violate house arrest or curfew.

The Ministry's probation and parole manual recognizes community visits as a valuable method for probation and parole officers to check an offender's information and enhance offender assessment and supervision. We noted the Ministry does not formally track whether probation and parole officers perform community visits. None of the five probation and parole offices we visited could provide data with respect to community visits, although four could provide the number of home visits (one type of community visit) conducted over the last three years. For the four offices, we were able to determine that home visits occurred only seven times per month on average for their 3,800 offenders supervised.

Federal probation officers, as well as those in Nova Scotia, use urine testing to ensure offenders are complying with drug and alcohol sentencing conditions. Ontario does not impose such testing even though the *Ministry of Correctional Services Act* provides the Ministry with the authority to do so. However, regulations under the Act have not yet been established.

Case Management Reviews Uncovering Many Lapses in Offender Supervision

The Ministry's annual and periodic case management reviews noted many occasions when probation and parole officers had not complied with policies, and in some of these cases, offenders committed serious crimes. Deficiencies that were noted included poor supervision of sex offenders; over-supervision of low-risk offenders; under-supervision of higher-risk offenders; allowing offenders to report less frequently than called for by the risk assessments; not scheduling counselling services suitable for the offender promptly or at all; failing to act within five days to deal with offenders who had failed to report as required; and not updating the offender management plan when required. In our view, these weaknesses are not identified sooner and are not addressed due to the lack of ongoing reporting of probation and parole officer activities that would allow area managers to know when supervision requirements are not being conducted as required by probation and parole officers.

The Ministry's area managers, each of whom oversees on average 19 probation and parole officers, annually select from each officer's caseload at least five representative offender files, to assess whether the officers are meeting ministry policies and standards for case management and reporting. We reviewed four medium to large offices in each of the four regions and found only one office where the five-case-per-officer minimum was met for all officers for their 2012/13 case files. In the other offices we reviewed, the percentage of officers who had at least five case files reviewed by their area managers ranged from 31% to 62%.

As part of this case management review process, the managers may also look at case files when serious incident reports are prepared by probation and parole officers in instances when offenders are charged with new offences while under supervision. In total, area managers reviewed about 3,600 case files for the 2012/13 fiscal year, about 50% of which were due to serious incident reports. As part of the Division's quality assurance initiatives, the Ministry informed us after we completed our fieldwork that almost 5,300 case-management reviews were completed in 2013/14, a 46% increase from 2012/13.

The results of the area managers' reviews are summarized annually for senior management, with the latest summaries done in August 2013. In cases where significant deficiencies were noted, the officers were instructed to address the concerns, or were disciplined. In addition, area managers identified the need for more officer training and for review of some policies.

For serious incident reports, it was noted that in most cases we sampled, the probation and parole officers did not adhere to policies and/or best practices—including not acting quickly enough when an offender breached a condition—and management oversight of these officers was weak. We noted several examples from 2011 to 2013 where offenders were alleged to have committed crimes more serious than their original offences, during the time when they were not being properly supervised. The new offences included murder, assaults and armed robbery.

We believe that the case management review process could benefit from periodic independent assessments, a common quality assurance practice. With area managers reviewing their own staffs, there is risk of inherent bias and of managers wanting to present only positive results. For instance, periodic independent case management reviews could be done by area managers from other offices.

Probation and Parole Officers Supervising Higher-risk Cases Before They Are Fully Trained

Training of probation and parole officers is crucial to maintaining quality in risk assessment, offender management and rehabilitation plans and supervision. If quality is maintained in these areas, it decreases the risk to the public of having offenders in the community.

The Ministry requires that probation and parole officer candidates have at least a bachelor's degree from a recognized university. Candidates are also evaluated on criteria such as ability to conduct an assessment and counsel clients; ability to write and communicate orally; ability to work independently and make enforcement decisions; and ability to interpret and apply legislation. In November 2013, the Ministry revised the job description for probation and parole officers by adding requirements such as degree-level studies in social work, sociology, psychology and criminology, or more than five years' experience in social service or correctional organizations.

Seventy-seven probation and parole officers have been hired since January 1, 2012. New probation and parole officers must attend a total of five weeks of basic training at the Ontario Correctional Services College in Hamilton. Typically, they complete the training at their own pace and can take one to two years to do so. They maintain caseloads during this period, and are mentored by more experienced officers. The Ministry told us that officers are assigned cases before the five weeks of training has been completed so they will get practical experience. A number of officers hired over the last several years told us that they began supervising offenders without having received any formal training; a few were meeting offenders during their first day on the job.

We noted that in British Columbia, prospective probation officers are required to complete a seven-hour training course, at their own cost, before they can even apply for a position. Successful candidates are reimbursed for their tuition fees after their six-month probation period. Further training that takes six months to a year to complete starts immediately after they are hired.

The Ministry has reviewed and enhanced some policies for high-risk offenders, including those convicted of domestic violence and sexual offences requiring intensive supervision, and has made specialized training mandatory. Probation and parole officers were expected to complete the required training, ongoing during our fieldwork, within 18 months. Despite the recent improvements in training, we found that half of the offenders sampled who had been categorized as at a very high risk to reoffend were being supervised by probation and parole officers who had not received the required specialized training. Officers told us that their heavy caseloads and the fact that training locations were not convenient for them meant they had been unable to attend the training.

The Ministry also requires an officer who is supervising an offender with a specific profile for which they have not received the proper training to consult with an officer who has the training, and to note such consultation in the Ministry's Offender Tracking Information System (OTIS). However, in only 4% of such cases we sampled was there an indication that such a consultation had occurred.

High Officer Workload and Weak Management Oversight

We assessed whether high workloads at certain probation and parole offices were the reason that probation and parole officers did not always follow required supervision policies and procedures, and found that this was possibly the case in some offices, but not all. Clearly, the primary reason was that there was not adequate and timely oversight by management and reporting on activities to ensure that officers were meeting key offender supervision requirements.

The Ministry uses a scoring system to evaluate probation and parole officers' workloads; a higher score indicates a higher workload. For December 2013, the Ministry found significant variances in average workload scores, ranging from a high of 150 points in one office to a low of 42 in another, with an average of 85 points. These variances between offices were noted even after the Ministry had moved 18 positions, beginning in fall 2012, from offices with lower workloads to those with workload pressures, and after it adjusted boundaries between offices to equalize workload. The Ministry advised us that it intended to continue with efforts to help equalize workload, and that it has moved 10 more positions since December 2013.

We concluded that, for some offices, weak management oversight was the primary reason that LSI-ORs were not completed on time, as opposed to high workloads, which area managers and officers during our field visits gave as the reason. For instance, we compared and analyzed the LSI-OR completion rate by their due dates as of June 2014, along with the workload scores reported for each probation and parole office. Our analysis found that there was no correlation between the LSI-OR completion rate and the workload levels at most offices. For example, the office with about 15% of its LSI-ORs overdue—11 percentage points higher than the provincial average—had a workload score of about 80 points—five points below the provincial average. At an office that had no overdue LSI-ORs, the workload score was 122—37 points above the provincial average.

RECOMMENDATION 3

In order to ensure that offenders serving sentences in the community are properly supervised and that conditions of their release are adequately monitored and enforced, the Ministry of Community Safety and Correctional Services should:

- conduct an assessment of the conditions imposed on offenders and whether probation and parole officers have the necessary information and monitoring tools to assure compliance;
- effectively oversee probation and parole officers' activities, including more frequent and timely reviews of officers' handling of cases, improvements to ongoing management reporting of case activities, and periodic independent reviews of cases by someone other than the responsible area manager;
- ensure that its probation and parole officers have the required knowledge and skill beforehand to supervise higher-risk offenders; and

- identify ways to better distribute the workload among probation and parole offices, and adjust staffing levels as soon as possible.

MINISTRY RESPONSE

The Ministry will conduct an analysis of the most common conditions on supervision documents to ensure probation and parole officers have the appropriate systems and monitoring tools in place to effectively supervise compliance. In addition, the Ministry will continue to conduct biannual enforcement audits on a sample of higher-risk cases.

Ministry staff will continue to develop and maintain collaborative relationships with justice partners at the local level to effectively monitor high-risk offenders in their communities. These joint efforts will include expanding formal protocols with police related to surveillance of high-risk offenders and house checks to ensure adherence to house arrest/curfew terms. The Ministry also expanded its training of staff in working with domestic violence and sex offenders.

As mentioned earlier, the revised Case Management Review (CMR) policy and scoring guide was implemented to improve consistency across the province. Managers will continue to complete CMRs on each officer throughout the year as a part of the annual review requirements and in response to reports of serious new charges. In 2013/14, 5,258 CMRs were completed, which represented a 46% increase in the number of CMRs completed from the previous year. The Ministry will assess capacity requirements for reviews to be completed by someone other than the responsible area manager.

Newly hired probation and parole officers begin within two months of commencing employment an extensive training program, including five weeks of in-person training at the Ontario Correctional Services College (OCSC) and 11 days within their respective region with additional training led and delivered by OCSC. This is completed typically within one year. The training includes a combination of scheduled periods of field work with orientation, regional training, e-learning and self-directed learning modules. Further, through joint Union-Management discussions, the Ministry recently implemented a comprehensive onboarding checklist and developed a Peer Mentoring Program to support new staff.

The Ministry is expanding the "Strategic Training Initiative in Community Supervision" pilot in partnership with Public Safety Canada. This evidence-based model provides enhanced skills training for officers when working with medium-to-high-risk offenders, and has shown positive results in reducing the risk of reoffending. Also in response to the Ministry's concerns regarding its capacity to deliver programs, Community Services is adding 14 new probation and parole officers dedicated to providing responsive programming; these resources are anticipated to be in place by the end of this year.

The need to ensure equitable workloads within offices is a long-standing priority. The Ministry developed a workload analysis tool (WAT) in partnership with the bargaining agent, which takes into account the full range of probation and parole officers' duties along with other related activities, such as training. The WAT was fully implemented in September 2012, and has assisted management and frontline staff participating in Workload Committees to balance workloads. The Ministry's WAT has been recognized as an innovative tool by jurisdictional partners across Canada. As noted in the report, between 2012 and 2014, the Ministry took further steps to help equalize workloads by reallocating 28 positions from offices with lower workload ratings to those with workload pressures.

Officers Lack Training and Tools to Assess and Support Offenders with Mental Health Issues

Ministry records indicate that offenders with mental health issues had an average reoffend rate of 34.7% for 2009/10 (latest year available), significantly higher than the average 22.9% reoffend rate for all other offenders. However, the Ministry lacks a provincial strategy to address mental health and related issues for offenders under community supervision and does not know whether its programs and services in this area are effective. By the Ministry's own estimates, the number of offenders with mental health issues has grown by almost 90% since 2003/04 to about 10,000, or 20% of offenders as of 2012/13. This growth is trending in the opposite direction to the 5% decrease in the number of offenders newly sentenced to community supervision during the same period.

Despite this increase, the Ministry has no validated tool for probation and parole officers to use to assess offenders for mental health issues, which means the Ministry probably has not identified all of these offenders.

Because there is no provincial strategy for services specific to offenders with mental health issues, probation and parole officers have minimal direction and limited resources on how to deal with such offenders, beyond being able to refer them to individual or group psychiatric counselling or other programs. The Ministry provides officers with some information about mental illness as part of their initial basic training, but there is no regular or refresher training available after that. A number of officers expressed concerns about the challenges of working with these offenders and the need for regular training.

From 2010 to 2013, the Ontario Correctional Services College run by the Ministry provided a one-day voluntary course entitled "Understanding Offenders with Mental Disorders" for both correctional institution and community corrections staff. Since 2013, however, the course has been offered only to correctional institution staff so it was no longer available to community corrections staff at the time of our audit. The College's records shows that only 76, or 9%, of the 850 probation and parole officers had completed this course.

In 2008, senior managers in corrections from each province and Correctional Service Canada created the Federal-Provincial-Territorial Working Group on Mental Health. In 2009, the working group published "The Mental Health Strategy for Corrections in Canada," which reflects efforts to enhance the continuum of care for individuals with mental health problems and/or illnesses who are involved in the correctional system. The strategy outlines guiding principles, expected outcomes and strategic priorities. However, no formal plans have been established to implement the strategy in Ontario.

In 2010, MPPs on the Legislature's Select Committee on Mental Health and Addictions recommended specific improvements to mental health services in Ontario and, with respect to corrections, that "the core basket of mental health and addictions services should be available to the incarcerated population, and discharge plans for individuals with a mental illness or addiction should be expanded to include the services of a system navigator (a liaison or coordinator) and appropriate community services." During our fieldwork, the Ministry had not yet addressed this recommendation. However, on August 25, 2014, the Ministry recruited a person to develop a strategy to address mental health issues in both institutional and community corrections settings.

At the federal level, Correctional Service Canada has since 2005 implemented a comprehensive federal Mental Health Strategy that outlines a process beginning with an offender's intake and continues throughout their sentence or community supervision, ending with a referral to appropriate community health services after their sentence or supervision period ends. The premise behind this process is that early identification of mental health concerns facilitates timely access to mental health services and assists in the development of an intervention strategy for an offender throughout their sentence. Mental health screening occurs within three to 14 days of the offender's admission to an institution. In addition, two days of mental health awareness training is provided to staff, and new staff positions have been established for clinical social workers and nurses who work directly with offenders with mental health disorders at select parole sites. These specialists also provide training to frontline staff and develop partnerships with local agencies.

In British Columbia, the Corrections Branch of the Ministry of Justice has been working with the province's Ministry of Health and the Provincial Health authorities, including the Forensic Psychiatric Services Commission, since 2011 to establish the Partners in Change Initiative. Recognizing that 56% of offenders admitted into the British Columbia corrections system are diagnosed with mental health disorders, the initiative is creating a coordinated response between the health-care and corrections system to better attend to the needs of these offenders and is aimed at improving the continuity of care for adult correction clients with mental health and/or substance abuse issues.

RECOMMENDATION 4

In order to effectively address the risks and needs of offenders with mental health issues, the Ministry of Community Safety and Correctional Services should establish a Ministry-wide strategy that includes training for probation and parole officers to recognize, supervise and assist these offenders, and that provides the resources and tools to support the officers and offenders. Once the strategy is implemented, the Ministry should track and measure the effectiveness of its programs and services specifically provided to offenders with mental health issues.

MINISTRY RESPONSE

In the summer 2014, the Ministry established a lead position in developing a strategy for managing offenders with mental health issues to better support the needs of this specialized population. The Ministry will also continue to identify local training opportunities on mental health issues and expand the rollout of its "Understanding Offenders with Mental Disorders" training initiative in 2015.

The Ministry enhanced its educational requirements for new probation and parole officers which will support more effective identification and supervision of offenders with mental health disorders. Policies will be reviewed to ensure that in those cases where a mental health disorder is related to offending behaviour, a plan to address both the mental health disorder and identified criminogenic needs is in place. We will also review the viability of developing and implementing a mental health screening tool.

The new LSI-OR application currently being rolled out includes additional mental health related items that are not criminogenic and not necessarily risk factors, but will require special consideration and enhanced case management planning and intervention for mental health offenders.

As new initiatives are developed to support our offender population, the Ministry's Program Effectiveness, Statistics and Applied Research (PESAR) unit will be engaged to develop and implement an evaluation strategy.

Rehabilitation Programs Need to Be More Effective and Consistently Available Across the Province

Programs Not Available Consistently Across the Province

Rehabilitation programs and services are intended to reduce the risk of offenders reoffending and include programs such as anger management and substance abuse treatment, counselling, and referrals to local social services, such as shelters. However, the Ministry does not have a province-wide, consolidated list of rehabilitation programs and services at each probation and parole office, and their wait times, that would allow senior management to identify areas in the province that are lacking programming.

A court can require an offender to attend rehabilitation programming during their community supervision term. As well, during the risk assessment process, a probation and parole officer can determine an offender's eligibility and needs and can then recommend specific programs. Programs may be delivered by the Ministry itself, by service providers contracted by the Ministry or by other community organizations not typically funded by the Ministry.

During the 2012/13 fiscal year, about 39,000 offenders, or 74% of those under community supervision, were scheduled for rehabilitation programs. Of those, about 20% attended the Ministry's Core Rehabilitative Programs (known as the core programs) delivered by probation and parole officers trained to instruct specific programs; 17% attended agency programs delivered by service providers contracted by the Ministry; and 63% were referred by a probation and parole officer to programs in the community that have been well established. (See **Figure 4**.)

In December 2012, the Ministry encouraged and provided training to area managers to conduct an analysis to determine whether rehabilitation programming was lacking in their areas, based on what rehabilitation needs were not being met. As of our current audit, only 35 of more than 100 offices had indicated they completed full analyses on program

Figure 4: Types of Rehabilitation Programs Delivered to Offenders under Community Supervision, for the year ended March 31, 2013

Source of data: Ministry of Community Safety and Correctional Services

Types of Rehabilitation Programs	Description	Programs/Services Available	Est. # of Offenders in Attendance	Est. % of Offenders in Attendance
Core rehabilitation programs	Developed by the Ministry and delivered by probation and parole officers who are trained to instruct specific programs. Ministry pays all costs.	14 programs in the areas such as: anti-criminal thinking; substance use; anger management; domestic violence; Aboriginal specific; and sexual offence relapse	7,800	20
Agency programs	Developed and delivered by service providers under 85 contracts with the Ministry. Ministry pays all costs.	Programs in areas such as anger management and substance abuse, or programs specific to groups, such as sex offenders. Individual and group counselling may be provided by either a psychiatrist, psychologist, or social worker. Some programs are specific to the Aboriginal community.	6,600	17
Community programs	Developed and delivered by community not-for-profit agencies, with the offender attending by referral from the probation and parole officer. Ministry typically does not pay the costs, which may be covered by the agency or by the offender.	Programs or services are similar to above but differ depending on availability in communities. Referrals may be made also to shelters, mental health programs and social services.	24,600	63
Total			**39,000**	**100**

availability. In the four regions, these analyses were completed by all offices in the Eastern region, fewer than half the offices in the Western region and no offices in the Central region. The Northern region completed program availability analysis only for domestic violence and sex offender programming in all their offices. We noted that 24 of the 35 offices indicated a lack of programming, including sex offender treatments, anti-criminal thinking, anger management, and Aboriginal-specific programming. We found that some action had been taken to address the lack of programming that had already been identified by some area offices; however, the Ministry has not done a comprehensive program availability analysis on a regular basis to ensure all gaps were addressed.

We also found analyses prepared by area managers were not completed in a consistent manner and differed in quality. Some area managers listed actions or plans to address some, but not all, gaps that were identified. For example, in one office, the limited availability of mental health services was identified because there was a long wait list for local services. However, the office did not indicate a plan to address these long wait times other than to state that more funding was required. Furthermore, the lack of program availability was not regularly captured between recommended rehabilitation programs and services, as determined by the probation and parole officers' risk assessments and offender management plans, and those scheduled with locally available programs and services, because the Ministry's OTIS case management system did not support recording both recommended and scheduled offender needs. The analyses also did not require area managers to identify whether programs were delivered using core programs or by using external service providers, and no quantitative information, such as the number of referrals and completions of each program, was used for the analyses.

In response to a recommendation we made in our *2002 Annual Report*, the then-Ministry of Public Safety and Security said a concerted effort was underway to expand the availability of core programs to all probation and parole offices. However, during our current audit, we again found that the percentage of probation and parole offices that deliver one or more core programs ranged from 36% in one region to 93% in another. We also reviewed the availability of core programs during a 15-month period (from October 2012 to December 2013), which is about the average length of a probation term, and found that about 40 of 100 offices offered no core programs to offenders, and the most that any one office offered was five of the 14 core programs.

All of the five offices we visited indicated that several popular programs, particularly those delivered by external service providers, had long wait times, up to several months, but they did not formally monitor these wait times.

Ministry Needs More Information on Participation in and Success of Rehabilitation Programs and Services

The Ministry has an internal accreditation process to help ensure its core rehabilitation programs satisfy standards that make them effective in reducing the reoffend rate. The Ministry estimated it spent $479,000 in 2012/13 to deliver these targeted programs, which are delivered by specially trained probation and parole officers.

The Ministry now offers 14 core programs, compared to only three as noted in our 2002 audit. However, as of April 2014, the Ministry indicated that only two of its 14 core programs—anti-criminal thinking and substance abuse for men—had achieved accreditation, based on evaluations of their outcomes in reducing the reoffend rate. Seven other programs—anger management (for men and women); anti-criminal thinking (for women); intensive anger management; substance abuse (for women); intensive substance abuse; and one Aboriginal-specific program—had achieved conditional accreditation, pending the evaluation of outcomes. The Ministry indicated the remaining five—domestic violence (for men and women); sexual offences; and two other Aboriginal-specific programs—required revisions.

We also noted that OTIS tracked the number of offenders who attended its core programs, but not the number that completed them. As a result, to evaluate the success of its core programs, the Ministry has to manually keep track of each offender's progress.

In 2012/13, the Ministry also spent about $5 million under 85 contracts with about 80 service providers, typically not-for-profit organizations, for rehabilitation programs in areas such as anger management, substance abuse and domestic violence. The majority of referrals made by probation and parole officers were to community programs at typically no charge to the Ministry. About 80% of offenders who participated in rehabilitation programs attended external programs. (See **Figure 4**.)

However, even though an offender has been scheduled to attend one or more of these agency or community programs, the Ministry's OTIS does not have the capability to have probation and parole officers track the offender's participation or successful completion. As well, the Ministry does not evaluate the quality of these external programs to determine whether they are effective in contributing to the offender's successful reintegration into society or whether the programs are helping to reduce the reoffend rate. However, in 2012/13, the Ministry started to collect basic information by requiring that each parole and probation office manually track the number of offenders referred to externally run programs and the number who completed these programs.

We noted that none of the five offices we visited had adequate records or statistics on programs delivered by contracted service providers or community organizations, nor did they have information about offenders' participation in these programs. We were also told that the totals given for referrals and completions were likely inaccurate because of inconsistencies in the way the data was collected from the external parties. As well, since manually tracking this skeletal information does not evaluate or measure the impact that a program has on an offender who completes a program successfully, no offices were able to provide information on how effective these programs were in reducing reoffend rates. Based on the trends shown earlier in **Figure 3**, there is a need to ensure rehabilitation programs are more effective in reducing reoffend rates.

We met with two large service providers to gain their perspective on program delivery and the relationship they have with the Ministry. Overall, the relationship between service providers and probation and parole officers was described as positive and cooperative. Service providers keep their own program statistics, such as number of referrals and program completions per fiscal year, and provide this data to the Ministry. However, the data is not provided on an individual offender basis. Furthermore, because service providers do not have access to reoffend data from the Ministry, they themselves cannot conduct studies to determine whether their programs are effective in reducing reoffend rates.

Monitoring of Service Providers' Contract Terms and Costs

In June 2013, the Ministry implemented community contract review instruments to help area managers assess the performance of agency service contracts and monitor the use of rehabilitation programs. During our review of a sample of contracts with service providers for 2013/14, we found the Ministry was still not adequately monitoring these contracts. For instance, 35% of service providers did not provide programming to the minimum number of offenders stated in the contract. We also found little or no correlation between service-level targets and the amount of annual funding the Ministry approved. Of the contracts that did not meet deliverables, all of them were renewed for the following year (2014/15) at the same dollar value. For example, one service provider agreed to accept into a substance abuse program a minimum of 100 and a maximum of 400 clients per month (1,200 to 4,800 for the year) for a contract value of almost $246,000. The number of clients actually served during the year was 1,068, or 132 clients fewer than the minimum. However, the Ministry renewed the contract for the following year for the same dollar value and number of spaces without investigating why the spaces were not filled. This contrasts with the long wait time noted for several external programs offered in some other areas.

We also noted a lack of comparisons of contract costs and deliverables when funding decisions were made, such that contracts with different service providers that had similar service-level targets for similar services were funded much differently. For example, the Ministry approved a contract of approximately $37,400 for one service provider and $84,400 for another to each provide substance abuse programming for 30 to 50 clients. In another example, the Ministry approved a contract of $64,400 for one service provider and a contract of close to $197,300 for another to each provide substance abuse programming for a maximum of 400 clients. As a result, we found significant variations in actual program costs per offender, as shown in **Figure 5**.

Figure 5: Actual Cost per Offender for Certain Community-based Programs and Services Provided by Funded Community Agencies, for the year ended March 31, 2014 ($)

Source of data: Ministry of Community Safety and Correctional Services

Program	Lowest	Highest	Average
Anger management	257	1,222	639
Sex offender treatment	569	2,496	1,555
Substance abuse	142	1,759	406

RECOMMENDATION 5

To ensure equitable access to effective rehabilitative programs for offenders, the Ministry of Community Safety and Correctional Services should:

- regularly track the availability of and wait times for rehabilitative programs and services for offenders under its supervision across the province, identify areas where assessed offenders' rehabilitation needs are not being met, and address the lack of program availability in these areas; and
- ensure it has sufficient and timely information for evaluating its core rehabilitative programs and that it implements changes to help improve their effectiveness in reducing reoffend rates.

MINISTRY RESPONSE

The Ministry concurs with the audit recommendation and will investigate technology solutions to track wait times for programs through its Offender Tracking Information System (OTIS) Program Tracking module. Staff will be required to track all internally provided core programs using this module so that data on referrals, attendance and completion is accessible for outcome evaluation.

The Ministry will develop a revised gap analysis template to consistently document program needs, gaps and action plans regarding program availability in each office location. In addition, program delivery will be streamlined in the community to deliver programs for medium- to very-high-risk offenders that focus on the five key criminogenic areas. With additional probation and parole program officer positions (14) and evaluation staff, the Ministry will be better positioned to improve on program delivery rates and consistency of tracking, as well as evaluating and accrediting its menu of rehabilitative programs.

RECOMMENDATION 6

To help ensure that programs delivered by external service providers are effective in reducing the reoffend rate and that their funding is commensurate with the value of service provided, the Ministry of Community Safety and Correctional Services should:

- more formally track the number of offenders who attend and complete externally sourced programs, and assess the effectiveness of these programs; and
- ensure that approved funding to agencies is comparable to that of programs of a similar nature and size across the province, and is based on the actual usage by offenders.

MINISTRY RESPONSE

The Ministry will continue to manually track program data, including the number of client referrals to a service as well as program completion, for contracted and community programs that address core criminogenic needs. We commit to improving program tracking functionality for all core programs, whether provided in-house or through contracted services.

The Ministry will continue to evaluate contracted service providers to ensure their program services are in alignment with evidence-based practices. Our research unit has developed the Community Contract Review Instruments (CCRI) to undertake such evaluations. In addition, a phased approach to the scheduling of outcome studies will be developed.

Evaluation guidelines will be developed for managers to use in assessing the quality of community-based services, and will address program outputs, outcomes and participant and referring agent satisfaction. Furthermore, the Ministry will focus on cost-per-client rates for contracts and ensure program descriptions and deliverables are clearly articulated. Ministry managers will be required to monitor and adjust funding levels commensurate with program usage rates.

Security and Project Management Weak for Offender Information Systems

System Security Weaknesses and Lack of Employee Security Clearances

Although the Ministry had been aware for more than 10 years of a number of significant issues with the security of the information contained in the Offender Tracking Information System (OTIS), these issues had still not been resolved at the time of our audit.

OTIS, introduced in 2001, is used to track and manage all adult and young offenders' case records and activities during their time served in custody and/or in the community. The system is maintained by the Justice Technology Services Division (JTSD). OTIS is linked to a number of other applications, including the Victim's Notification System, the LSI-OR, the Sex Offender Registry, Immigration Canada and the Canadian Police Information Centre.

In March 2013, the external consultant engaged by the Ministry's internal auditor to review OTIS to assess the security of the system, among other things, reported six recommendations. As of August 2014, the Ministry had not acted on four of these recommendations: to implement new password settings to align them with the government-wide standard; end access for users who are no longer authorized; encrypt all sensitive data in storage; and log and monitor the users of the system to ensure their use was appropriate for business reasons and in compliance with legislation. We identified that these security deficiencies were already known to the Ministry before the review. Specifically, the security deficiencies were first identified during an internal threat risk assessment in 2001, and the same concerns were highlighted in a similar risk assessment in 2006. We were informed that the delay in addressing the recommendations was because changes were not made a priority and, in some cases, because new security controls could only be implemented and tested after an upgrade of OTIS, completion of which has been delayed.

Our current audit found the following additional security issues:

- Overall, JTSD could not demonstrate that it had valid background checks for 40% of its more than 300 information technology employees, as required by government policy. This included 20, or 26%, of the 76 employees within JTSD who had access and provided support to the Ministry's information system applications, including OTIS and LSI-OR. Of these 20 employees, eight had the ability to make changes to offenders' records in OTIS and/or LSI-OR.
- The Ministry could not ensure that information on the more than 300 offenders annually who are monitored under the Electronic Supervision Program (ESP) is secure. In September 2012, the Ministry entered into a three-year contract with a private company for services to support the operation of the ESP, including delivering electronic monitoring equipment, technology, monitoring software and technical services. This company has subcontracted hosting services to a third party, including network infrastructure and data backups, but, based on discussions with Ministry staff, we concluded there has been insufficient effort to ensure the company is compliant with the terms of the contract, or ensure the company is enforcing those terms with the subcontractor. The company was fulfilling the requirement that it provide operational reports to the Ministry monthly, but the Ministry was not exercising its power to check that those reports were accurate. In addition, the Ministry did not know if criminal records checks had been done for all company and subcontractor employees as required by the contract; whether the network security was adequate and effective; and whether offender data was securely managed.

Weak Oversight and Management of IT Projects

The projects managed by the Justice Technology Services Division (JTSD) do not adhere to the Ontario Public Service Integrated Project Management Framework and Methodology. Specifically, JTSD did not have a system in place to ensure all information technology projects were delivered in accordance with pre-established timelines and budgets, or that changes to the initial deliverables were properly controlled. For example, in June 2010, the JTSD started a project to upgrade OTIS with new functionalities to better record and track information on trust accounts, youth gangs and visits by members of the public to offenders in a new detention centre. Cost of the project was initially estimated at $3.36 million and it was to be completed by June 29, 2013. However, as of July 31, 2014, the project had not been completed and the JTSD could not provide us with key information, such as the cost incurred to date, additional forecast cost, and revised completion date, nor with a justification for the delay.

A project to upgrade the 13-year-old LSI-OR system—needed because the technology that supported the system was outdated—was started in July 2009, with an estimated cost of $1.35 million and expected completion date of June 30, 2011. However, this project had not been fully implemented at the time of our audit, and, again, information on the actual and forecast cost and the revised completion date were not readily available.

RECOMMENDATION 7

To better secure and protect offenders' and victims' information, the Ministry of Community Safety and Correctional Services should:

- address the long-standing security issues regarding its Offender Tracking Information System (OTIS);
- ensure that it has reliable assurances that offender information shared with private service providers is adequately protected; and

- ensure that proper levels of security clearance are in place for all government and contract employees before they receive access to OTIS and other offender and victim information systems.

MINISTRY RESPONSE

Security issues related to password expiry are being addressed in the current version of OTIS with further upgrades identified for rollout with the implementation of OTIS Elite over the next year. The Ministry will work with its HR advisers to integrate the security clearance life-cycle with the OTIS user access management process to ensure all active users have a minimum security clearance at all times.

User access requests are reviewed to ensure levels of access are appropriate to perform the functions of the role. A process is also in place to ensure information shared with private service providers is reviewed and approved by a manager and that accounts are reviewed biannually and terminated as required.

RECOMMENDATION 8

To ensure that information system projects adhere to Ontario Public Service project management standards, are delivered on time and within budget, and meet user expectations, the Ministry of Community Safety and Correctional Services should coordinate with the Justice Technology Services Division to establish project baselines for scope, budget and schedule; monitor progress and costs regularly against project milestones and budgets; and document and justify any significant changes against the initial deliverables.

MINISTRY RESPONSE

The Justice Technology Services Division has streamlined financial processes and produces monthly project dashboards as well as a governance document for senior management. Dashboards include reporting on project status, finance, scope and milestones, with linkages to project expenditures to date. A new Enterprise Portfolio Project Management (EPPM) tool will be implemented across the Justice cluster for all project reporting.

Ontario Parole Board

Parole and Temporary Absence Programs Have Low Participation Rates

The federal *Corrections and Conditional Release Act* permits parole boards to authorize the early release of inmates to "facilitate the rehabilitation of offenders and their reintegration into the community as law-abiding citizens," with the stipulation that protection of society is the paramount consideration. The other benefits of releasing low-risk inmates from correctional institutions before their sentences are complete include lower costs to the public and relieving overcrowding at provincial correctional institutions.

The Ministry recently calculated that the average daily cost per offender under community supervision was less than $6, whereas the average daily cost for an inmate incarcerated at a correctional institution was $184. Ministry data indicates 13 of the province's 30 correctional institutions were operating over capacity in either their male sections or female sections or both. Of the remaining 17, 12 were operating at 80% to 100% capacity in one or both sections.

We noted in our *2002 Annual Report* that the reintegration of offenders into the community was impacted by a significant reduction in the number of eligible inmates being considered for parole. The situation has worsened, and for 2013/14 only 1,025 inmates had a parole hearing, half as many as in 2000/01. In addition, the number of inmates who applied for temporary absences and were granted a hearing has declined 36% from 243 in 2008/09 to 156 in 2013/14.

The low participation and release rate may have several causes, but the main causes are noted in the following subsections.

Process for Applying for Parole and Temporary Absences Is Lengthy and Onerous

Seventy-two per cent of inmates in provincial correctional institutions receive sentences of less than 90 days. Meanwhile, the process for applying for early release generally takes about 60 days, and if parole was granted, the offender would then be subject to strict parole conditions for the remainder of the full sentence. In the face of this process, many offenders serving short sentences, who would be released after serving two-thirds of their sentence (up to 60 days) anyway, would opt to avoid the parole application process.

The process to prepare and apply for parole is lengthy and onerous because federal legislation requires that boards consider extensive information in order to reduce risk to the public. The Board requires that inmates applying for early release prepare a structured parole plan to submit with their application for a hearing. A probation and parole officer then investigates the plan, and other police, correctional institution, and court documents are made available to the Board before the parole hearing. At the hearings, inmates are required to represent themselves without lawyers, and their families and victims may also participate.

In addition, there is a high rate of inmates waiving their right to a parole hearing. The Board must automatically consider inmates serving sentences of six months or more for parole unless the inmate waives this hearing. In Ontario, about 3,300, or 14% of new inmates, were serving such sentences in 2012/13. During 2012/13, about 2,250 inmates, or 68%, waived their right to a parole hearing. The Quebec Parole Board had a 50% waiver rate for the same year.

The Board has not formally analyzed the reasons for the high waiver rate. When an inmate signs a form to waive the right to a parole hearing, the inmate also can note a reason for their decision. Board staff at the three regional offices enter the information into OTIS; however, only two offices also entered the reason for the waiver, if the inmate provided one.

Based on our own analysis of the available reasons for inmates waiving their parole hearing that were entered into OTIS, we noted that for 2012/13, 26% indicated they were applying for or had been accepted into a treatment or other work program at the correctional institution; 40% said they simply did not want parole or they preferred serving their time and being released at two-thirds of their sentence without the conditions that would be imposed with parole; 14% indicated they did not have a parole plan or could not find a place to live; 10% said they had too long a criminal record or knew their chance of being granted parole was reduced; 5% said they had an appeal or outstanding charges pending; and the remaining 5% listed other reasons.

For unescorted temporary absences from 72 hours to 60 days, inmates must specify the purpose of the temporary absence and meet the pre-established eligibility criteria before the Board considers the application. The process for applying is similarly lengthy and onerous to that of parole.

We also noted that there may be insufficient efforts to inform inmates about the parole and temporary absence programs. For instance, one of the Board's regional offices conducted a project in February 2014 during which the vice chair of the office interviewed 19 inmates who had previously signed a waiver to parole hearing to understand why they had waived their right and explain the other options to them. As a result of the interviews, the vice chair found that all 19 inmates claimed they knew nothing about the temporary absence process; five inmates wanted to consider applying for temporary absence; another five inmates rescinded their waivers, two of whom eventually had their parole granted; and the remainder of the inmates in the pilot took no further action.

When we discussed the results of the pilot project with the program manager at the particular correctional institution, he acknowledged the result and agreed that staff do not seek to promote temporary absence, since the current ministry policy requires an inmate, not the institution staff, to submit an application.

Variable Resources for Helping Inmates Apply for Early Release

Both the Ministry and the Board have established that it is the Ministry's responsibility to ensure inmates are informed of their rights regarding parole consideration. In general, inmates attend an orientation when they are admitted to a provincial correctional institution, at which time the parole and temporary absence application process should be introduced. The process is also discussed at one-on-one meetings between institution staff members and individual inmates.

Depending on the length of sentence and the inmate's interest in parole and/or the temporary absence program, the Ministry has different processes to assist with the application and hearing process. For instance, inmates with sentences of six months or longer will usually be seen by Institution Liaison Officers before their parole eligibility date, which is at one-third of their sentence period. Institution Liaison Officers, who are stationed at correctional institutions, are probation and parole officers who report to area managers in the Adult Community Corrections Division. Inmates with sentences of less than six months will only be seen on their request.

Staff resources at correctional institutions vary greatly. For example, we found the number of inmates per Institution Liaison Officer at larger correctional institutions ranged from 66 to 370 during 2013/14. We noted the institutions with proportionately fewer Institution Liaison Officers had fewer inmates applying for parole.

Based on our sample of parole cases, Institution Liaison Officers initiated pre-parole investigations by a probation and parole officer from a few days to about six months after inmates were admitted to a correctional institution. As a result, in some cases the time that inmates had to wait for a parole hearing after his or her parole eligibility date varied from one week to more than three months.

Inmates considering a request for a temporary absence meet with the correctional institution's temporary absence coordinator (or sometimes a social worker), who reports to the Superintendent of the institution. We noted instances where there was more than one staff member assisting an inmate on an application for parole and temporary absence, duplicating the work. As well, some inmates waited for several months past their eligibility before they submitted their applications for temporary absence. Temporary absence coordinators sometimes took more than the required 30 days to complete their investigation, but it was unclear why this was the case.

An internal report by the Board and the Ministry in May 2013 identified ways to improve parole and temporary release processes. Recommendations included informing inmates about temporary absence and parole options early in their sentences; reviewing the roles of Institution Liaison Officers; transferring the responsibility for supervising offenders on Board-approved temporary absences from temporary absence coordinators to probation and parole officers; providing integrated training to Institution Liaison Officers and temporary absence coordinators; and streamlining the temporary absence application and approval process.

At the end of our audit, we were informed that a committee had begun gathering information to review the roles of Institution Liaison Officers at each correctional institution. The committee is to then review the workloads and job descriptions of Institution Liaison Officers. No other significant action had been taken to implement the recommendations.

Low Rate of Parole Approval

Over the last five years, the Board has granted parole for, on average, 32% of those inmates who had hearings. Quebec's comparable parole grant rate was 44% in 2012/13, and the Parole Board of Canada granted full parole for 29% of provincial inmates who applied in the eight provinces that do not have their own parole boards.

The Board has not tracked or analyzed the reasons that 68% of applications for parole are denied, or consolidated the reasons for denial and shared the result with the Ministry. For instance, the reasons for denials range from there being a problem with the inmate's parole plan to the inmate being too great a risk to public safety. If the rationale behind parole denials was shared by the Board, the Institutional Liaison Officers could better prepare inmates regarding the Board's expectations for granting parole. As it stands, the high rate of denial contributes to the low participation rate; inmates may think they do not have a good chance of being granted parole, so they do not apply.

We reviewed cases in which parole was denied and found that the reasons included parole plans that lacked a confirmed counselling component or other treatment specific to the inmate, or lacked confirmed employment, suitable housing or sponsors; parole plans that lacked programming specifically addressing the offence; the inmate minimizing the crime he or she had committed; and recurring criminal behaviour during interim release. Parole was also denied due to the nature and gravity of the original offence committed.

In some cases, parole has been denied because the offender's release plan lacked suitable housing. Ontario discontinued the use of community-based residential facilities (also called half-way houses) in the mid-1990s. Half-way housing provided a bridge between the institution and the community through gradual, supervised release. These housing facilities usually offered programming in the areas of life skills, substance abuse, employment and/or crisis counselling. Based on our sample of selected contract agreements between the Ministry and community agencies, half-way housing could cost approximately $92 per day, or about half the cost of incarceration for low-risk inmates.

Based on our discussion with the Board, the use of half-way housing could increase the number of inmates granted parole, especially inmates who are denied parole because they have no confirmed residence plan and/or programming available in the community. Correctional Service Canada contracts with approximately 200 non-governmental organizations to provide special accommodations for, and counselling and supervision of, offenders who are usually on day parole (where conditions usually require offenders to return nightly to an institution or a half-way house). The number of offenders released to the community by the Parole Board of Canada with a condition requiring that they reside in a half-way house or in a community correctional centre has risen over the past several years, with an average during 2012/13 of about 2,200 offenders residing in these facilities, an increase of 13% from 2011/12. Quebec's Ministry of Public Safety also has funded partnerships to provide half-way houses for offenders in the community.

RECOMMENDATION 9

In order to help more inmates reintegrate into society while protecting public safety and reducing incarceration costs and overcrowding in correctional facilities, the Ontario Parole Board should work collaboratively with the Ministry of Community Safety and Correctional Services to:

- provide sufficient support at each correctional institution to assist inmates who want to apply for parole or temporary absence;
- track and assess the delays in completing the parole and temporary absence program applications and the reasons for the high denial rates for parole, using this information to streamline the processes and improve the quality of applications from inmates; and

- consider the cost-effectiveness of reintroducing half-way housing for parolees.

JOINT RESPONSE BY THE MINISTRY AND THE SAFETY, LICENSING APPEALS AND STANDARDS TRIBUNALS ONTARIO

The Ministry will review support at and to correctional institutions to assist inmates with applications and adjust procedures where necessary.

The Ministry will review and track the process to complete temporary absence and parole applications to identify efficiencies that might streamline the processes and better understand the reasons for denials. The Ontario Parole Board and the Ministry will work collaboratively on this review by providing feedback on the level of support provided to inmates.

The Ministry will continue to develop and expand processes and supports for staff engaged in community reintegration planning.

The Ministry will review community-based alternatives to incarceration and transitional housing for parolees and other offender populations.

Review Needed of Ontario Parole Board's Transfer to Ministry of the Attorney General

On April 1, 2013, the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO) was created under the Ministry of the Attorney General as an adjudicative tribunal cluster under the *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009*. The Act was established to have tribunals administered under a common organization, or cluster, to allow them to operate more efficiently and effectively, rather than individually on their own. The Ontario Parole Board was one of five tribunals transferred to SLASTO, along with the Animal Care Review Board, the Fire Safety Commission, the Licence Appeal Tribunal and the Ontario Civilian Police Commission. As a result, the Board no longer reports to the Minister of Community Safety and Correctional Services.

As of July 31, 2014, SLASTO was still in the process of reorganizing the administrative operations of the five tribunals, and the Board had not yet achieved greater operational efficiency and effectiveness. The reorganization of SLASTO is scheduled to be completed by March 31, 2015.

The Board has strongly protested being included in the cluster and reporting to a different ministry, and is calling for a review of this decision. The Board has identified that it does not have similar administrative and training needs to the other tribunals in the cluster. For instance:

- The training its members have received since the transfer to SLASTO has been less specific to the needs of its community corrections clients.
- The Board primarily conducts its hearings at correctional institutions, so there are no savings to be gained by sharing hearing rooms with the other tribunals.
- The former board chair, now an associate chair in the cluster, reports to an executive chair, adding a new level of management to the Board.
- Because the Board makes decisions on whether releasing inmates would compromise community safety, it has traditionally hired members with a social work background in the area of community corrections. SLASTO intends to train members of all five tribunals—with an emphasis on training in legal matters and process—to adjudicate any type of hearing, including parole hearings.
- The Board believes that a close relationship with corrections fosters an improved working relationship for its clients; senior management at SLASTO indicated that the change in reporting relationship to the Ministry of the Attorney General enhances the public's perception of fairness and independence of the Board.

RECOMMENDATION 10

In view of the Ontario Parole Board's concerns with the recent decision to change its reporting and accountability relationship from the Ministry of Community Safety and Correctional Services to the new Safety, Licensing Appeals and Standards Tribunals Ontario cluster of the Ministry of the Attorney General, the Board and the two ministries should collaborate to conduct a review of the cost-effectiveness, benefits and any new barriers that have been or are expected to be created by this decision, and whether this change will improve the operations of the Board.

SAFETY, LICENSING APPEALS AND STANDARDS TRIBUNALS ONTARIO RESPONSE

The Ministry of the Attorney General (Ministry) is aware of the concerns expressed by some members of the Board about its inclusion in the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO) and will give them full and careful consideration. Subsection 21(1) of *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009* requires that an adjudicative tribunal's responsible minister shall direct a review at least once every six years. These prescribed reviews must assess a variety of areas, including a review of the tribunal's governance structure and management systems, and whether they continue to be appropriate to its mandate and functions. The Ministry will begin a review within 12 months of the receipt of the Auditor General's report that will include consideration of the concerns detailed in your report relating to the Ontario Parole Board.

The Ministry believes that the Board, like any other Ministry of the Attorney General tribunal, can benefit from certain shared administrative functions. For example, the financial services unit of the Board has been consolidated within the broader SLASTO cluster and a consolidated legal services unit is planned. A detailed analysis of existing workflow processes across the tribunals and the Executive Office has been completed, and the potential for consolidated processes across the tribunals, including a supporting organizational structure, is currently being assessed. As noted in your report, this work is intended to be completed in 2015.

SLASTO is very much aware of the unique skill sets required of Board members. A blend of skills—including legal skills—can help improve Board member decision-making. We are working to ensure that the Board and other tribunals have the appropriate level of specialization amongst adjudicators.

MINISTRY RESPONSE

The Ministry of the Attorney General, the Ontario Parole Board and the Ministry of Community Safety and Correctional Services have consulted on this recommendation, and the Ministry will support the review process identified by the Ontario Parole Board and the Ministry of the Attorney General.

Chapter 3

Section
3.02

Ministry of Education

Child Care Program (Licensed Daycare)

Background

The Ministry of Education (Ministry) is responsible for the administration of the *Day Nurseries Act* (Act) and its regulations, which together make up the legislation that outlines the requirements for the health, safety and well-being of children in licensed child care facilities. Licensed child care operators are required to comply with the standards set out in legislation. The Ministry is responsible for developing policies to support licensed child care, providing funds to subsidize the cost of child care, issuing and renewing licences, inspecting and monitoring licensed child care facilities, obtaining information about serious occurrences and investigating complaints.

There are two types of licensed child care operations in Ontario: centre-based child care and private-home day care agencies. Centre-based care is provided by for-profit and not-for-profit operators, municipalities and First Nations bands. Private-home day care agencies co-ordinate home-based child care at private residences, with each home providing service to five children or less. **Figure 1** shows the number of licensed child care centres and private-home day care agencies, along with the system's total licensed capacity (defined in legislation as the maximum number of children allowed to be in attendance at one time as set out in the child care licence).

Figure 1: Centre-based Child Care and Private-home Daycare Agencies in Ontario, as of July 2014

Source of data: Ministry of Education

Type of Facility	Licences Issued	# of Locations	Licensed Capacity
Centre-based child care	5,093	5,093	317,726
Private-home daycare	126	5,081	16,769
Total	**5,219**	**10,174**	**334,495**

Without a licence, individuals are permitted to provide child care services for up to five children under 10 years of age in addition to their own children. These unlicensed operations are not associated with an agency, are not required to meet the standards established in legislation, and are not regulated, licensed or inspected by the Ministry.

In April 2010, the government announced the transfer of responsibility for child care from the Ministry of Children and Youth Services to the Ministry of Education in order to integrate child care with early years education. A phased approach was used for this transfer, with the responsibility for child care licensing, inspection and enforcement being transferred over in January 2012.

A 2012 discussion paper titled *Modernizing Child Care in Ontario* notes that the Ministry's long-term vision for child care is to build a high-quality, accessible and co-ordinated early learning and child care system for both pre-school and school-aged children. The discussion paper also proposes several actions aimed at improving the delivery of child care such as updating the funding process, providing capital funding, modernizing legislation, developing mandatory program guidelines for child care operators and improving data collection to better evaluate outcomes and improve accountability.

Child care licensing, inspection and enforcement functions, which are the Ministry's responsibility, are performed by 48 full-time and, at the time of our audit, 12 temporary program advisors, who report to regional managers at six regional offices. In addition to 74 First Nations bands and three related agencies that are responsible for child care funding in their communities, a regulation to the Act designates 47 municipal areas as child care service managers. The bands, agencies and municipal service managers are responsible for managing funding within legislative and policy parameters, including the provision of child care fee subsidies to eligible families. In the 2013/14 fiscal year, the Ministry of Education transferred $965 million ($959 million in the 2012/13 fiscal year) to bands, municipal service managers and other organizations to support child care.

Audit Objective and Scope

The objective of our audit of the child care program was to assess whether the Ministry has effective oversight and management processes to ensure that licensed child care operators comply with legislation and ministry policies that are in place to encourage and protect the health, safety and development of children in their care.

Funding for child care was the major focus of our last audit of child care in 2005. However, on this audit our work covered Ministry responsibilities for licensing, inspection and enforcement. We did not review the child care funding oversight responsibilities of municipal service managers and First Nations bands. We also did not assess unlicensed child care because a review by the Office of the Ombudsman of Ontario, prompted by the death of a child in an unlicensed home-based day care, was in process. Senior management reviewed and agreed to our audit objective and associated audit criteria.

Our audit work was conducted at the Ministry's head office and at selected regional and local offices. Of the six regional offices, we visited three: Toronto Central, Barrie and Ottawa. In addition, we visited three local offices: Newmarket and Oshawa in the Barrie region and Kingston in the Ottawa region. We also accompanied ministry program advisors on a limited number of site inspections, researched child care oversight practices in other jurisdictions and sought the opinions of several child care associations.

Our audit fieldwork was conducted from January to May 2014, and we focused our sampling on ministry files for the last two years (2012 and 2013) but reviewed previous years' files where it was necessary to assess operator history. In addition, we analyzed statistical data for the past five calendar years (2009 to 2013).

In July 2014, the Minister reintroduced the *Child Care Modernization Act, 2014*, in the Ontario Legislature. If this Act (which was tabled as Bill 10, the *Child Care and Early Years Act, 2014*) is passed, it will replace the *Day Nurseries Act*. The new Act proposes to foster the learning, development, health and well-being of children and to enhance their safety. With respect to licensing, inspection and enforcement, the proposed legislation provides additional conditions upon which to refuse to issue or renew a licence or revoke an existing licence. The new Act also provides additional enforcement options for dealing with child care operators that do not comply, including compliance orders, protection orders and administrative penalties.

Summary

Given its responsibility for the *Day Nurseries Act*, the Ministry of Education needs to do significantly more to reduce the risk of and incidents of serious occurrences to ensure the health, safety and well-being of children in the care of licensed operators and private-home day care agencies. We believe that inspections and the related enforcement actions over centre-based child care operators and private-home day care agencies need to be strengthened in order to reduce the incidence and risk of serious occurrences affecting children in licensed child care facilities.

More than 29,000 serious occurrences (ranging broadly in severity) were reported to the Ministry by licensed child care operators and private-home day care agencies between January 1, 2009 and May 31, 2014 (see **Figure 8**). Serious occurrences include a serious injury to a child, the abuse of a child, any situation where a child has gone missing, a fire or other disaster, as well as physical or safety standard threats on the premises. As a result of our work, we are also concerned that operators are not reporting serious occurrences accurately, on a timely basis and, more importantly, may not be reporting all serious occurrences to the Ministry.

We noted cases where the same child health, safety and well-being concerns were observed on multiple inspections. Although legislation provides grounds for when the Ministry can revoke or refuse to renew a license, we noted that there are no guidelines to assist staff in determining when such courses of action are appropriate.

The following are some of our significant concerns:

- ***Inspections not conducted on a timely basis.*** We noted many examples where operators with a history of non-compliance, considered to be high risk, were not being monitored more closely than well-run child care centres. For example, as of May 2014, one high-risk child care centre had not been inspected since November 2012 despite recent non-compliance issues including a lack of child supervision due to inadequate staff, improper food storage practices and failing to restrict children's access to cleaning products and knives. Overall, in the last five years, program advisors have not inspected approximately one-third of child care operators before the expiry date of their child care licence. As well, we assessed a sample of operators with provisional licences, which are considered to be high risk, and found that more than 80% were inspected only after the expiry date on their licence.
- ***Enforcement of inspection findings needs to be strengthened.*** During our audit, we noted many instances where concerns relating to child health and safety were not addressed by child care operators on a timely basis. We also noted that operators that repeatedly contravened the Act were issued successive provisional licences with no further enforcement action. Over the last five years, only 18 enforcement actions were taken against child care operators.
- ***Criminal reference check practices need review.*** During our audit, we noted that the Ministry did not always verify that a criminal reference check had been obtained by child care operators for themselves and their staff who have direct access to children. As well, the Ministry does not require child care operators and their staff to obtain vulnerable sector checks. A vulnerable sector check is designed to identify and screen individuals who have a history of questionable or abusive behaviours and who wish to work with children or anyone else considered vulnerable or at greater risk than the general population. It is more thorough than a criminal reference check and includes additional searches such as restraining orders, pardoned convictions and police contacts for threatening or violent behaviour. Both Alberta and Saskatchewan

require child care staff to obtain vulnerable sector checks as does Ontario's Ministry of Health and Long-Term Care for people seeking employment in nursing homes or long-term-care facilities. Several Ontario school boards also require a vulnerable sector check from people volunteering or seeking employment in elementary and secondary schools.

- ***Caseload of program advisors increasing.*** Since 2005, the number of child care operators has increased from 3,900 to 5,200 or 33%, while the number of program advisors is relatively unchanged. As a result, there has been a similar increase in the average caseload of program advisors. Half the advisors were responsible for the inspection and oversight of more than 100 child care centres. This increased caseload is in addition to program advisors' other duties such as licensing and following up on serious occurrences and complaints. Consequently, the Ministry needs to review its staffing to ensure that thorough inspections are conducted so that children are effectively cared for in a safe and healthy environment.
- ***Risk of inconsistent oversight of child care operators.*** Program advisors issuing licences and conducting inspections recommending the licensing of child care operators exercise a great deal of discretion when conducting their work because ministry policies and guidelines are often vague or non-existent. The risk exists that work is performed inconsistently. For example, there were no guidelines on how to verify that medications, cleaning supplies and other hazardous substances were properly stored and inaccessible to children. We observed that program advisor verification ranged from minimal (check a few cupboards) to thorough (check all cupboards and storage areas).
- ***Improved management information required.*** At the start of our audit, we asked the Ministry's head office to provide various management reports that we would consider necessary to ensure effective oversight of licensed child care operators. We found that data was not collected on the number of children enrolled in licensed care; a record of the status of facility inspections was not maintained; complaint logs had to be consolidated from various sources; and information on serious occurrences would have to be extracted from the computer systems and obtained from a municipal service manager. As a result, we concluded that, even though the Ministry implemented a new system during the audit that will provide a variety of management reports, management did not have the information necessary to properly oversee the child care program.
- ***Serious occurrence oversight needs improvement.*** Child care operators have reported more than 29,000 serious occurrences to the Ministry in the last five years. By definition, these are very serious incidents that often involve medical attention, children's aid and/or emergency services. We found that many of these incidents were not being reported to the Ministry within 24 hours as required, including a case of alleged physical abuse by a child care employee that was witnessed by another staff member. We also concluded that program advisors were not adequately reviewing the operators' serious occurrence policies because we noted that some policies in our sample did not properly identify what constitutes a serious occurrence and that half the policies did not state all of the requirements regarding reporting these occurrences to the Ministry.

OVERALL MINISTRY RESPONSE

The Ministry appreciates the findings and recommendations of the Auditor General that will help build on the improvements and initiatives that are currently underway to modernize child care: a key priority for the Ministry of Education.

The Ministry's response outlines specific actions being taken in each of the 10 areas raised by the Auditor General.

On July 10, 2014, the government reintroduced the *Child Care Modernization Act, 2014* (Bill 10). If passed, the proposed act will provide enhanced oversight and increased access, and will strengthen the quality of the child care and early years system. In addition, the recent release of a pedagogical framework (that is, a framework related to the methods and practice of teaching) entitled *How Does Learning Happen? Ontario's Pedagogy for the Early Years* will support quality programs. As it moves forward, the Ministry will seek to build linkages between its pedagogical framework and its licensing standards.

Data capacity has been substantially enhanced by the implementation of the Child Care Licensing System (CCLS) in December 2013. This new system should enable the timely collection of relevant information to support program management, planning and oversight. The CCLS is a web-based system that allows prospective and existing child care operators and ministry staff to complete online licensing activities, including new licence applications, renewals, revisions and serious occurrences. Planned enhancements to the CCLS include a new licensed complaints module to be implemented in November 2014.

A detailed orientation module in the CCLS was developed for new applicants, and an enhanced internal directive is being created to provide staff with additional direction regarding new applicants. Staff will be provided with training as this new directive is implemented.

Additional staff have been recruited, including temporary staff to support timely inspections of licensed child care programs and to support new applicants, and a permanent enforcement unit for unlicensed child care has been established. We will continue to analyze permanent staffing needs and workload issues on an ongoing basis. As of October 2014, the percentage of overdue licenses has been reduced to approximately 15%, cutting the backlog by more than half. The Ministry plans to move toward risk-based licensing, which would enable a licensing and monitoring system based on objective criteria such as licensing history.

Program advisors are highly qualified, with many having extensive experience in the child care sector and knowledge of child development. In addition, almost 70% of current program advisors hold Early Childhood Education credentials. The Ministry will continue to monitor and assess the educational requirements of staff. The Ministry has also introduced five new Senior Program Advisor positions to support regional oversight, enhance consistency and enable additional training for staff.

To support consistent licensing practices, the Ministry will continue to update internal directives and provide comprehensive training for staff to provide clarity in the application of these internal directives. The directives under development include provisional/short-term licences, criminal reference checks, licensed child care complaints and serious occurrences. The Ministry has also recently updated its internal directive on private-home child care to clarify requirements for these licences.

A review is currently being conducted on serious occurrence policy and criminal reference check requirements, and the Ministry will update internal directives in these areas as well. The Ministry has also met with partner ministries regarding information sharing in relation to child care. To support information for parents, mechanisms will be explored to enhance the information available, including consideration of options for posting serious occurrences online.

Detailed Audit Observations

Program Effectiveness and Reporting

More Work Needs to Be Done to Implement Ministry's Long-term Vision

The 2012 *Modernizing Child Care in Ontario* discussion paper details the government's long-term vision for child care. Not only is the Ministry expected to build a high-quality, accessible and co-ordinated early learning and child care system, but this system is expected to focus on encouraging learning in a safe, play-based environment that provides for healthy physical, social, emotional and cognitive development. The system is also intended to facilitate early identification and intervention for children in need of special supports. Where possible, child care services are to be located in or linked with schools to be more accommodating for both children and their families.

With regard to the government's long-term vision, the Ministry has not developed any performance measures for reporting on the progress made toward achieving this vision. However, with regard to the proposed actions aimed at maintaining and improving child care, the Ministry has made progress with three of these actions:

- In 2012, the Ministry began providing capital funding to school boards to retrofit child care spaces in schools to serve younger children.
- In 2013, the Ministry introduced a new transfer-payment funding formula.
- In July 2014, the *Child Care Modernization Act, 2014*, which was reintroduced in the Legislature as Bill 10, is intended to replace the *Day Nurseries Act*.

The Ministry is still working on the remaining two actions: developing a mandatory provincial program guideline and improving data collection to better evaluate outcomes and improve accountability.

Limited Information Currently Compiled and Recorded to Assess Operational Performance

In *Modernizing Child Care in Ontario*, the Ministry of Education states that data collection and monitoring are critical for public accountability and reporting, and could aid in early identification and intervention to support children with a range of abilities. However, the Ministry has not been capturing program-specific information at the operator level. At the start of our audit, we asked how many children were in attendance at each child care facility but the Ministry could only estimate the total number of children in Ontario's licensed child care facilities. Actual data was not available.

We also asked for various management reports from the Ministry's head office that we would consider necessary to assess effective oversight over licensed child care operators. We were informed that the Ministry did not maintain an overall record on the status of inspections performed by program advisors, that complaint logs would have to be consolidated from information collected by each region and that information about serious occurrences would have to be consolidated from information collected within the Ministry and from a municipal service manager.

We also requested a listing of all short-term licences issued, given that program advisors had told us that operators who had received such licences were considered higher risk and therefore required more oversight. However, the Ministry informed us that it did not track this information and it was unable to generate a list of operators with short-term licences. In addition, we needed to extract raw data from the Ministry's computer system to obtain useful information on inspections, and we had to obtain information on complaints and serious occurrences from various sources to acquire consolidated data for those two areas.

During our audit, we had additional concerns regarding both the reliability of the information provided to us and the availability of information necessary for the Ministry's head office to assess the operational performance of the regional offices. However, the Ministry informed us that the role of head office is to provide direction and set performance expectations for the regional offices, as well as provide guidance and support when needed.

In December 2013, the Ministry replaced the information system that the Ministry of Children and Youth Services had been using with the Child Care Licensing System (CCLS). The new CCLS is a web-based system that allows prospective and existing child care operators and ministry staff to complete licensing activities online, including new licence applications, licence renewals, licence revisions, ministry approval for staff and serious occurrence submissions. The system replaces the Ministry's previous paper-based processes for child care licensing activities.

Provincial Child Care Programming Guideline Is Optional

In our 2005 audit of child care, we noted that a 2004 report released by the Organisation for Economic Co-operation and Development concluded that most Canadian provinces lacked the child care curriculum frameworks necessary to support quality programs and the experiences that enhance children's social, language and cognitive development. At that time, we recommended that the Ministry develop a child care curriculum policy framework and implement more detailed and helpful guidance to assist child care staff.

The 2012 *Modernizing Child Care in Ontario* notes that over the next three years a mandatory provincial program guideline will be developed for child care operators to enhance program quality and consistency. In April 2014, the Ministry released *How Does Learning Happen?*, a resource guide that discusses learning through relationships for those who work with young children and their families and is intended to support teaching and curriculum development in early years programs. The guide includes goals for children and expectations for children's programming. At the time of our audit, child care operator implementation of this program guideline was optional and the Ministry had not determined when or if implementation would become mandatory.

Our 2005 audit also noted that the regulations and the *Day Nurseries Manual* allowed both ministry and child care staff to exercise a high degree of discretion in determining whether the activities being offered to children enhanced child learning and development. For example, the regulations state that there should be a program of activities that is varied and flexible and that includes activities appropriate for the developmental levels of the children enrolled, incorporating group and individual activities; activities designed to promote gross and fine motor skills, as well as language, cognitive activities, social and emotional development; and active and quiet play. However, the manual gives no further specifics about the program of activities that program operators should be implementing.

We continue to be concerned about the level of discretion that exists with regard to evaluating program quality. The licensing inspection checklist requires program advisors to verify that the operator has a program of activities in place. However, when we accompanied program advisors on inspections, we found that there were no specific requirements being used by the advisors to evaluate the activities delivered by child care providers. The advisor typically performed a quick review of the planned activities for the week and checked to see if there were sufficient toys and books available.

Some complaints received by the Ministry indicated that parents have been concerned about the quality of programs in child care settings. For example, the Ministry received a complaint from a parent stating that there were no activities at the centre where her child was enrolled and that children were bored. We noted that although the most recent inspection of this operator had not identified any concerns about the quality of the program of activities, a site visit six months later to follow up on this complaint revealed that no program plan was posted and that a flexible program of activities was not provided, as required.

If a mandatory provincial program guideline is introduced to strengthen the recent discretionary guideline, the Ministry will need to address how programs at child care settings will be evaluated to ensure program quality.

RECOMMENDATION 1

To help ensure the delivery of a high-quality, accessible and co-ordinated child care system in Ontario that encourages child cognitive, language and social development, the Ministry of Education should:

- develop a detailed plan for completing the implementation of the remaining medium-term actions from *Modernizing Child Care in Ontario*, including putting mandatory provincial program guidelines in place and improving data collection, evaluation and reporting;
- develop more useful guidance to assist program advisors to more consistently evaluate child care programs being delivered to ensure that those programs meet expectations for effective child development;
- collect and analyze all relevant information about child care operators to assist with program management and oversight; and
- develop performance measures for assessing progress toward the government's long-term vision for child care and periodically report on these measures publicly.

MINISTRY RESPONSE

The Ministry is committed to working with its partners to modernize the child care system by planning for and implementing the proposed actions in the *Modernizing Child Care in Ontario* discussion paper. In addition to the actions related to funding and proposed legislation, the Ministry recently released *How Does Learning Happen? Ontario's Pedagogy for the Early Years* (HDLH). This document is a professional learning resource to support program design and pedagogy in early years programs, and the Ministry has developed a number of resources to support it.

Bill 10, if passed, would mandate high quality programming in child care by:

- identifying the provision of high quality experiences and positive outcomes for children within a provincial framework; and
- providing the authority for the Minister to guide operators by issuing policy statements on child care programming and pedagogy.

In the future, the Ministry will seek to build linkages between HDLH and the licensing standards to provide guidance to licensed child care programs and program advisors to support consistency in the quality of child care programming.

The new Child Care Licensing System (CCLS) has automated many child care licensing business processes, improved access to licensing data and will support the analysis of licensing history. To enhance oversight, since February 2014, management has had access to reports that could be pulled from the CCLS. The Ministry is developing a reporting module in the CCLS for December 2014 that will be used to run periodic reports on licence renewals, new licence applications, serious occurrences and complaints. This will enable regular analysis of licensing data to identify emerging issues and sector trends.

In 2012, all licensed child care operators were surveyed on their workforce, parent fees, program hours, days of operation, staff wages, and finances. Over 70% of the licensed child care operators provided responses. The Ministry is considering future data collection to update this information. The proposed legislation, if passed, would include authority to collect complete information to support the evaluation of child care and early years programs and services. In addition, a new branch was created to provide a dedicated focus on data quality, validation and analytics to support stronger performance measures and reporting.

Licensing New Child Care Operators

To become a licensed child care operator, applicants submit a fee of $15 along with a completed application form that outlines details of the proposed program. The applicant is also required to submit a criminal reference check and other supporting documentation that demonstrates compliance with the licensing requirements. Program advisors carry out site visits during the application process to review the premises, equipment and operational policies, and to provide advice on any changes that may be needed to achieve compliance. Approximately two weeks before the operator starts providing services to children, a program advisor performs a licensing inspection to formally document that the applicant has complied with all legislative and ministry requirements. If the applicant passes that inspection, a licence is issued. The licence pertains to specific premises and by legislation can be issued for up to 12 months. **Figure 2** shows that over 1,700 new licences were issued over the last five calendar years (2009–2013).

Delays in Licensing New Child Care Operators

We identified that it can take a new applicant anywhere from one to 18 months to obtain a licence to operate a child care facility in Ontario. Program advisors indicated that delays are often due to the applicant's lack of knowledge about the legislation governing child care, as well as insufficient information being available for applicants about how to develop appropriate policies. Many program advisors told us that they provide certain applicants with significant assistance to help them achieve compliance. These advisors also expressed concerns that some prospective operators would likely not remain in compliance because they did not seem to understand the purpose or intent of the licensing requirements.

Figure 2: Licences Issued to New Operators, 2009–2013

Source of data: Ministry of Education

Calendar Year	# of Licences Issued
2009	385
2010	272
2011	357
2012	403
2013	318
Total	**1,735**

The Act allows the Ministry to refuse to issue a licence if an applicant is not competent, if the applicant's past conduct suggests that the applicant will not operate in accordance with legislation or if the premises do not comply with all requirements. We noted that, although the Ministry's internal guidelines ask staff to question if there is anything to indicate that the applicant is not competent to operate a facility in a responsible manner, there is little guidance to assist program advisors in arriving at this decision. Since taking over the child care program's licensing functions in January 2012, the Ministry has issued over 700 new licences and has not refused a single applicant.

Many program advisors also stated that other job functions, such as following up on complaints and serious occurrences, as well as performing inspections on existing operators, take priority over licensing new child care operations. Regional managers at the three regions we visited did not track the time taken to license new operators and did not question advisors about those applicants that were taking a significant amount of time to become licensed.

Compliance Not Always Verified Before Applicants Are Issued a Licence

Licences should be issued only to applicants that can successfully demonstrate that they will operate in compliance with all legislative and ministry requirements. If an applicant has not demonstrated compliance, any concerns are supposed to be rectified before a licence is issued.

For a sample of new operators, we reviewed the details of the initial inspection report and the supporting documentation submitted by the applicant to determine if they had complied with requirements before a licence was issued. We found that supporting documents relating to municipal approvals, playground inspections and floor and site plans met requirements. These documents were normally kept on file at the Ministry and were available for review by regional managers.

In contrast, operator policies were usually not kept on file at the Ministry and were not available for management review. Proper policies need to be in place at new child care operations before a licence is issued to ensure a safe and healthy environment for children. However, we found evidence that these policies were not always in compliance before the licence was issued. In one instance, the inspection checklist indicated that the applicant had not demonstrated compliance for over one-third of the requirements. For example, the applicant had not obtained the required criminal reference checks, the medication administration policy was incomplete, potential safety hazards (including unstable bookshelves) were observed, and not enough staff were scheduled to commence operations. We were informed that a subsequent visit was made to verify compliance but there was no evidence on file to verify that such a follow-up visit had been undertaken or to demonstrate that the non-compliance issues had been resolved.

We also noted that, in many subsequent licensing renewal inspections of existing operators, advisors consistently identified that operator policies, such as those for behaviour management, serious occurrences, medication administration and criminal reference checks, did not meet the requirements. By nature, such policies change very little, if at all, over time and they should be in place before the operator starts providing services to children.

Guidelines Needed for Timely Monitoring of New Operators

The initial child care licence for a new operator can be issued for as little as three months and up to a maximum of 12 months. Program advisors informed us that the decision regarding how many months the initial licence will be issued for is based on an assessment of the operator's competency. Operators that are seen to be competent, and therefore likely to be compliant with legislation and policy, are issued licences for a longer period of time. However, we found that there were no guidelines to assess competency and any such assessments to justify the number of months for the initial licence had not been documented.

The Ministry has also not established guidelines for monitoring new operators after the initial licence is issued and the operator begins providing services to children. Once a facility is in operation, an inspection visit is necessary to ensure full compliance because several requirements cannot be assessed until children are present. For example, before child care operations begin, program advisors cannot verify that sufficient staffing ratios are being maintained or that emergency procedures are in place for each child who has severe allergies. Inspection visits for new operators are to be performed before the initial three- to 12-month licence has expired. We reviewed a sample of these inspection reports for new operators and found a number of non-compliance issues that could have been identified in a more timely manner:

- For an operator whose initial licence was issued for six months, the first licensing renewal inspection identified many non-compliance issues. For example, the program advisor noted that there was no evidence that staff had obtained the required criminal reference checks, something that should have been done before the initial licence was issued. The advisor also observed a potential choking hazard as an infant was being fed while lying on his back in a crib, and children were not properly supervised as toddlers were wandering around unattended.

- For an operator with an initial 11-month licence, the program advisor noted in the first licensing renewal inspection that medication was not kept in a locked container, emergency procedures for a child with severe allergies had not been reviewed with employees and the required number of qualified staff had not been hired.
- For an operator whose initial licence was issued for 12 months, the first licensing renewal inspection noted a number of problems: hazardous materials such as medical supplies, cleaning materials and electrical equipment were within the reach of children; the operator had not implemented a criminal reference check policy; and equipment and furnishings were not safe or in a good state of repair.

We noted that in British Columbia, newly licensed facilities receive a risk assessment inspection within six to eight months of commencing operations. This risk assessment quantifies the scope and severity of the risk posed to individuals being cared for to determine the frequency and timing of subsequent inspections.

RECOMMENDATION 2

To help ensure that new child care operators not only comply with legislation and ministry policy but also provide a safe and healthy environment that encourages the social, emotional and intellectual development of children, the Ministry of Education should:

- develop guidelines to assist program advisors in assessing whether new applicants are sufficiently competent to establish child care operations;
- thoroughly review new operators' policies to ensure that they comply with all ministry and legislative requirements;
- provide new applicants with more detailed guidelines, templates and examples of best practices to assist them in developing the policies that they are required to have in place before receiving a licence and commencing operations;
- track the time it takes new applicants to become licensed, document the reasons for any delays and take appropriate action where necessary;
- provide regional managers with sufficient evidence and documentation to support issuing licences to new child care operators; and
- gauge the risk of non-compliance posed by each new operator, assess the length of time for which a new licence is issued based on this risk and monitor new operators accordingly.

MINISTRY RESPONSE

The social, emotional and intellectual development of children is a key priority for the Ministry of Education. We are committed to working with child care operators to help support legislative and policy compliance, and to supporting their important work.

An internal licensing directive will be created and training will be provided to give additional direction to regional offices on the licence application process, including assessments of applicant competencies and the review of applicant policies and procedures.

A webinar will be delivered in November 2014 for new applicants to provide additional information about licensing requirements and the application process. The Ministry will also develop additional tools and sample policies and procedures to assist applicants in meeting licensing requirements.

The Child Care Licensing System (CCLS) also includes a detailed orientation module that provides information to new applicants about licensing requirements, responsibilities of child care operators, and the new licence application process. The *Day Nurseries Act* for Supervisors website is an additional tool to support supervisors and operators in child care to better understand provincial licensing requirements.

Reports on in-process new licence applications are now being pulled from the CCLS on a regular basis. The reports include the status of the application and the number of days in process, and will be used to track progress of the licensing process and expedite delays.

Application information, including supporting documentation, can now be submitted by applicants online in the CCLS, which has streamlined the review process for program advisors and made documentation more readily accessible to regional managers for the licence decision process.

The internal licensing directive being created will also give additional direction to regional offices regarding new operators in areas such as the assessment of compliance and regarding appropriate monitoring and oversight, and will standardize the issuance of short-term and provisional licences.

Child Care Licence Renewals and Inspections

One-Third of Operators Are Not Inspected on a Timely Basis

To renew their child care licence, operators must submit a renewal form along with a $10 fee one month before their licence expires. Operators provide the same general information that is required during the new operator application process. Once the renewal form is received, an unannounced inspection is to be performed to ensure that the operator is still in compliance with licensing requirements. Operators who submit their renewal applications after licence expiry are charged a $25 late fee. **Figure 3** shows the number of inspections performed in each region over the last five calendar years (2009–2013).

The Ministry tries to conduct unannounced inspections within a month of receiving the licence renewal form. We selected a sample of renewal files and found that the majority of operators submitted their renewal forms on time. Program advisors informed us that they informed operators that submitted their renewal form late that they were operating illegally. However, the Ministry permitted these centres to continue operations. For one of the files we sampled, the centre was operating without a licence for over 225 days, and no inspection had been performed during this time because the renewal form had not been submitted. Linking unannounced inspections to the receipt of renewal forms, instead of conducting them at any random time, eliminates the surprise element of unannounced inspections. This is a concern because some compliance risks, such as the need to have the proper number of staff on duty, can only be effectively verified with an unexpected on-site visit.

We found that over the last five years, program advisors have not inspected approximately one-third of child care operators before the expiry of their child care licence. Advisors are responsible for maintaining their own inspection schedules, and at the time of our audit, no inspection logs were maintained by regional managers or the Ministry's head office. We also found that much of the regional managers' oversight of inspection scheduling is reactive, as they only periodically generate reports that show which licences have expired. See **Figure 4** for a summary of expired licences.

The Ministry has not developed a formal plan to address its inspection backlog and to ensure that operators are inspected before their licence expires. Some of the program advisors we spoke with stated that they were encouraged to perform two inspections per day in order to stay up to date with their caseload. However, when we accompanied program advisors on inspections, we noted that inspections can take from half a day to two days to complete, depending on the number of rooms to be inspected, whether the advisor is visiting the

Figure 3: Number of Inspections Performed by Region, 2009–2013

Source of data: Ministry of Education

Region (Calendar Year)	2009	2010	2011	2012	2013	Total
Barrie	1,066	1,042	1,199	817	803	**4,927**
London	1,248	1,309	1,214	1,232	999	**6,002**
Northern	431	432	402	427	361	**2,053**
Ottawa	734	750	752	616	343	**3,195**
Toronto Central	1,071	1,080	989	973	786	**4,899**
Toronto West	892	862	879	882	694	**4,209**
Total	**5,442**	**5,475**	**5,435**	**4,947**	**3,986**	**25,285**

Figure 4: Operators with Expired Licences Not Yet Inspected as of March 31, 2014

Source of data: Ministry of Education

Region	# of Licences	# Expired	% Expired	Maximum Days Expired	Average # of Days Expired
Barrie	1,133	469	41.4	501	166
London	1,152	246	21.4	294	45
Northern	396	51	12.9	645	68
Ottawa	684	261	38.2	516	238
Toronto Central	957	259	27.1	243	67
Toronto West	873	388	44.4	437	91
Total/Overall Average	**5,195**	**1,674**	**32.2%**	**645**	**124**

centre for the first time and the number of non-compliance issues noted.

The Ministry does not use a risk-based process to manage its inspection caseload. Such a process would systematically assess operators relative to their risk of not complying with legislation. Program advisors informed us that there are no guidelines to specifically categorize an operator as high risk, but those operators who are issued provisional licences (operators who are given time to come into compliance) or short-term licences (issued for less than one year) are considered high priority. However, operators who fall into this category are not tracked, and there is no process for ensuring that they are more closely monitored than operators who are more compliant.

We noted many examples of high-risk operators that were monitored even less frequently than well-run child care operations. For example, in a four-year period, one centre had its licence suspended, was then issued a provisional licence and was issued two short-term licences after that. A number of significant non-compliance issues had been noted, such as a lack of child supervision due to inadequate staff, improper food storage practices and failing to restrict children's access to cleaning products and knives. The most recent inspection of this operator had been performed in November 2012. The Ministry subsequently issued a short-term licence due to expire in August 2013. However, as of May 2014, nine months after its licence expired and 18 months after the last inspection, this high-risk operator had still not been inspected. We assessed a sample of operators with provisional licences and found that more than 80% were inspected after their licences expired.

The discussion paper *Modernizing Child Care in Ontario* noted that a move toward risk-based licensing would allow for effective resource allocation to support the health and safety of children in licensed child care. However, at the time of our audit, the Ministry had not begun implementing a risk-based inspection process. We noted that British Columbia has a risk assessment process where operators are categorized based on their current and historical compliance with standards and any operator found to be high risk is to be inspected more frequently.

RECOMMENDATION 3

To ensure that child care operators are inspected in a timely manner to verify that they maintain compliance with legislative requirements and deliver services to children in a healthy, safe environment, the Ministry of Education should:

- take more effective action against operators that do not submit their licence renewal forms on time and link inspection scheduling to licence expiry date rather than receipt of the licence renewal form;
- identify high-risk operators and develop a risk-based approach for determining how often these and other child care operators should be inspected;
- formulate a plan using this risk-based approach to address the backlog of inspections so that operators can be inspected before their licences expire; and
- schedule visits in a way that minimizes timing predictability.

MINISTRY RESPONSE

The Ministry is placing a priority on child care operators being inspected in a timely manner to verify that they maintain compliance with legislative requirements and deliver services to children in a healthy, safe environment. The CCLS has automated and streamlined the licence renewal process for operators and frequent notifications are now sent to operators that have not yet submitted their renewal application.

For the longer term, the Ministry plans to move toward risk-based licensing, which would enable a licensing and monitoring system based on objective criteria such as licensing history. This approach could encourage greater compliance by recognizing high performing child care operators with consistent compliance records, and by providing additional supports to operators with patterns of non-compliance.

The Ministry has recruited additional program advisors to support timely inspections of licensed child care programs and to support licensing for new applicants. As of October 2014, the percentage of overdue licences has been reduced to approximately 15%, cutting the backlog by more than half. The Ministry continues to focus its efforts on the backlog and will provide direction that the scheduling of inspections be prioritized based on a review of licensing history and the length of time overdue.

To reduce the predictability of licensing visits, the Ministry will assess the feasibility of increasing the use of unannounced monitoring visits.

Inspection Procedural Guidelines and Management Review Need Improvement

To assess whether child care operators are complying with the licensing requirements, program advisors are required to complete an inspection checklist. The checklist contains 278 questions and is to be used in conjunction with ministry procedural guidelines. However, we found that the procedural guidelines for assessing compliance with the licensing requirements are vague. As a result, program advisors exercise a great deal of discretion when filling out the inspection checklist. We spoke to several program advisors and accompanied some on inspections to determine the types of procedures performed. We noted the following concerns:

- Program advisors are expected to verify that medications, cleaning supplies and other hazardous substances are properly stored so that they are inaccessible to children. During the inspections we attended, we observed that some program advisors would check all storage areas and cupboards, whereas others would inspect only a few cupboards. In one instance, the Ministry received a complaint that a child had obtained access to window cleaning fluid. The child had poured the liquid over himself and risked ingesting it. More detailed inspection procedures or minimum recommended procedures to assess the storage of hazardous products could help identify such risks.

- One operator had been inspected by the same program advisor for the previous eight years. In 2014, the operator was assigned to a different program advisor and we accompanied this program advisor on the inspection. This inspection identified a significant number of non-compliance issues, many of which should have been identified when the child care centre first began operating. For example, various policies, such as those for criminal reference checks and serious occurrences, did not outline all the legislative and ministry requirements; almost half of the children enrolled did not have emergency information on file; and there was no written behaviour management policy. The Ministry does not have a policy requiring that program advisors be periodically rotated to ensure that different perspectives are brought to the inspection process and to help compensate for inconsistencies in inspection practices.
- Advisors are required to ensure that child care staff have the required health assessments and immunizations before commencing employment. One of the program advisors we spoke to stated that details of the requirements were not in the procedural guidelines or otherwise communicated to program advisors. She also did not know which health assessments and immunizations were required or how often vaccinations needed to be updated.

Overall, we determined that the regional manager's quality review process for inspections needs to be improved. We were advised that regional managers review each file, focusing on non-compliance issues identified during the inspection. However, given the high degree of discretion expected from program advisors, more emphasis is needed on having program advisors document how they concluded that the operator has met the licensing requirements. For example, any noted compliance should be accompanied by a description of the activities performed by the program advisor before reaching that conclusion. Two of the regional managers we spoke to stated that, if they have time, they accompany program advisors on inspections. However, the majority of program advisors stated that they had never been accompanied on an inspection by their regional manager.

RECOMMENDATION 4

To ensure that effective inspection procedures are in place to verify that child care operators maintain compliance with legislative requirements and deliver services to children in a healthy, safe environment, the Ministry of Education should:

- enhance the procedural guidelines for inspections conducted by program advisors to include detailed minimum procedures to be performed;
- provide regular program advisor training and training updates on inspection guidelines;
- have program advisors document the procedures performed and the conclusions they reach during inspections and retain all relevant documentation for subsequent management review; and
- periodically rotate program advisor caseloads to help compensate for inconsistencies in inspection practices.

MINISTRY RESPONSE

Since the transfer of child care licensing from the Ministry of Children and Youth Services to the Ministry of Education, seven new internal directives have been developed and three existing

directives have been updated. Other directives are currently being updated, such as an internal licensing directive that will support the consistent interpretation and application of the *Day Nurseries Act*.

Various staff training programs have been ongoing since January 2012, and additional training on new and updated internal directives will begin in November 2014. In addition, over the last year, the Ministry has conducted training on the licensing process, interpretation of the *Day Nurseries Act*, and standards for documentation. A four-day comprehensive training module has also been developed for new program advisors; it was conducted in July 2013 and August 2014.

The Ministry is developing a comprehensive training strategy to support new program advisors and regional managers, as well as the ongoing learning and development of existing staff. The Ministry has also introduced five new Senior Program Advisor positions to enable additional training for staff, to support regional oversight, and enhance licensing practices. These new practices will help provide consistency in licensing conclusions, and will outline expectations regarding the retention of relevant documentation.

Where geography permits, rotations of caseloads occur on an occasional basis. The Ministry will consider rotating caseloads among program advisors on a more frequent basis, where feasible, while promoting consistency in practice.

Enforcement in Cases of Operator Non-compliance Needs to Be Strengthened

The *Day Nurseries Act* stipulates that it is an offence to knowingly provide false information, operate a day nursery without a licence, operate while a licence is suspended or fail to comply with a court-ordered injunction. Individuals who are convicted of any of these offences could be liable to a fine of up to $2,000 a day and/or imprisonment for a year. Additionally, any individual who is found guilty of obstructing an inspection can receive a fine of up to $5,000 and/or up to two years' imprisonment. Ministry staff stated that to the best of their knowledge, no charges have been laid against any licensed operators in at least the last five years. **Figure 5** shows that the Ministry took only 18 enforcement actions (which **Figure 5** also describes) against child care operators during the last five years.

We reviewed a sample of inspection files where a regular licence was issued and noted that the majority of operators initially had some non-compliance issues that could affect child health and safety. In most of these cases the operator had sent an email to the program advisor stating that the problem had been rectified. However, no supporting documentation, such as an updated policy, was submitted to verify that the non-compliance had been rectified. We noted cases where the same non-compliance issues were observed on multiple inspections. For example, in three consecutive inspections of one operator, the advisor noted that there was no written procedure for monitoring behaviour management practices. The operator

Figure 5: Enforcement Actions Taken by the Ministry, 2009–2013

Source of data: Ministry of Education

Enforcement Mechanism (Calendar Year)	2009	2010	2011	2012	2013	Total
Refusal to renew a licence	0	1	2	0	1	**4**
Revocation of a licence	1	0	0	0	0	**1**
Licence suspension*	1	1	6	3*	1	**12**
Injunctions to cease non-compliance	0	0	0	0	1	**1**
Charges laid	0	0	0	0	0	**0**
Total	**2**	**2**	**8**	**3**	**3**	**18**

* The Office of the Auditor General of Ontario found an additional Notice of Direction to suspend a licence that was not included in the list provided by the Ministry from 2009 through 2013.

submitted emails stating that the policy now included the required information and the program advisor issued the operator a regular licence. However, the non-compliance had clearly not been rectified because if the information was documented after the first inspection, it would not have been an issue in the two subsequent inspections. The Ministry has not developed guidelines to assist program advisors in determining how they should follow up on non-compliance issues to ensure that operators actually resolve concerns.

All non-compliance issues noted during inspections are to be recorded on the Ministry's child care website. However, the website provides only general statements regarding non-compliance issues, not the actual observed details. For example, in one instance the website notes that a centre did not meet the requirements of the local medical officer of health. However, no details were provided to give parents a sense of the what the concern was or the risk posed to their children. In addition, for 20% of the inspections we reviewed, non-compliance issues identified were not reported on the Ministry's website. For example, one inspection determined that the equipment and furnishings at a child care centre were not safe. However, this was not listed as a non-compliance item on the Ministry's website.

During the licensing renewal inspection process, if program advisors determine that an operator is not complying with licensing requirements, the advisor is to document the non-compliance, outline the steps necessary to achieve compliance, and set a date by which the non-compliance should be resolved. Ministry policy allows operators up to 10 working days to correct any non-compliance issues. However, if the operator is unable to come into compliance within this time or if the non-compliance poses a risk to children's safety, a provisional licence is required to be issued. **Figure 6** shows the number of provisional licences issued in the five calendar years 2009 through 2013.

Ministry policy states that provisional licences are to be issued for up to three months and can be issued for a longer period of time only under exceptional circumstances, which must be documented. However, we noted that almost half of the provisional licences we sampled were issued for durations ranging from four to six months without the required documented rationale. Further, program advisors are supposed to closely monitor and document the operator's effort to achieve compliance during the provisional licence's term. This information can then be used in determining whether further enforcement action as set out in legislation, such as revoking or refusing to renew a licence, is necessary. However, we noted that two-thirds of the provisional licences sampled had no documented evidence of any increased monitoring.

Ministry policy states that the issuance of two consecutive three-month provisional licences for the same offence should provide sufficient time for the operator to comply before any enforcement action is taken. We identified that 22 operators have been issued multiple provisional licences over the past two years. The most recent inspection of one operator that had been issued four consecutive provisional licences noted that the operator had not ensured that emergency procedures for children with severe allergic reactions had been reviewed with staff, hazardous cleaning materials were accessible to children and brackets at the base of playground equipment had exposed screws and were not safe. Even so, another provisional licence was issued with no further enforcement action. Although legislation provides grounds for when the Ministry can revoke or refuse to renew a licence, we noted that there are no guidelines to assist regional

Figure 6: Provisional Licences Issued, 2009–2013

Source of data: Ministry of Education

Calendar Year	# of Provisional Licences Issued
2009	98
2010	90
2011	83
2012	60
2013	49
Total	**380**

offices in determining when such courses of action are appropriate.

Our review of provisional licences also identified that some operators were receiving licences that alternated between provisional licences and short-term licences (operators issued either are considered high risk). We were informed that short-term licences are issued when program advisors would like to monitor operators more frequently. However, we were concerned that, on occasion, short-term licences were being issued instead of provisional licenses to avoid issuing consecutive provisional licences. We noted that there were no guidelines outlining when it is appropriate to issue a short-term licence. We also noted that the Ministry had not kept track of the short-term licences issued and could not extract this information from its computer system. Consequently, we could not determine the total number of high-risk child care operators.

We were informed by staff at the three regions we visited that if there are concerns about numerous non-compliances or recurring non-compliance issues, further action may involve a meeting between the operator and the regional manager. There are no formal guidelines or policies regarding these meetings but we noted that the manager and operator meet to discuss a plan to rectify the non-compliance. In one such case, a centre had been getting progressively more unsanitary with each inspection. This centre had not been closed down, because it was in an area with limited child care options. Ultimately, a complaint had been received that the centre had a foul smell, mice and a cook who was preparing food while ill. Eventually, after the regional manager met with the operator, the centre was cleaned up. Only one of the three regions we visited tracked which operators had been called in for meetings. This region had held five meetings in 2012, four in 2013 and eight from January to May 2014.

RECOMMENDATION 5

To ensure that adequate policies and procedures are in place to enforce operators' compliance with legislative requirements and to help ensure that operators deliver services to children in a healthy, safe environment, the Ministry of Education should:

- obtain appropriate supporting documentation to verify that any observed non-compliance is rectified and for management oversight purposes;
- more closely monitor, as required, operators that have been issued a provisional licence;
- develop or enhance guidelines related to issuing a short-term licence; extending a provisional licence beyond three months; meetings between regional managers and child care operators; and suspending, revoking or refusing to renew a licence;
- disclose on its child care website all non-compliance issues noted during inspections in sufficient detail to give parents a sense of the risk posed to their children; and
- administer effective enforcement action against operators that have not complied with legislative and ministry requirements.

MINISTRY RESPONSE

To support compliance and the delivery of services to children in a healthy, safe environment, the Ministry will implement a regular process of file review to enhance consistency and improve file documentation. This process will also provide guidance to program advisors in their assessment of inspection findings and the extent of follow-up actions to be taken.

The Ministry will develop an internal licensing directive on enforcement that will provide additional direction regarding the management and monitoring of provisional licences, the criteria for issuing and monitoring short-term licences, and the range and progression of enforcement actions available to regional offices to address chronic non-compliance. Bill 10, if passed, will provide additional authority regarding enforcement. In addition, the move toward a risk-based approach will provide more guidance and consistency in enforcement actions.

The Ministry currently provides information about licensed child care programs, including inspection findings, on the Licensed Child Care website. Upon request, operators are also required to provide parents with a copy of the detailed licence inspection checklist. To be more informative, the Ministry will explore mechanisms to enhance the detail of the information available online to parents.

The proposed legislation, if passed, would also provide a range of new and enhanced enforcement options that could be used to take effective action against operators in contravention of statutory requirements and regulations. This includes compliance orders, protection orders, administrative penalties, restraining orders and an obligation to publish contraventions.

Oversight of Private-home Day Care Agencies Needs to Be Strengthened

Private-home day care agencies are licensed to operate a network of home-based child care in private residences. These agencies screen, approve and monitor the home day care providers and are required to inspect each residence every three months. Program advisors inspect these agencies to assess compliance with licensing requirements and are required to visit 5% to 10% of the private residences to observe agency staff as they carry out their inspections.

To inspect an agency, program advisors use an inspection checklist similar to that used for centre-based child care but modified for private-home day care licensing requirements. We found that some questions in the agency inspection checklists were not answered for more than half of the files we reviewed. For example, there was no confirmation that the dogs and cats at one provider's home had been inoculated against rabies. In another instance, the advisor had not verified that any firearms in the home were locked away and inaccessible to children. We also noted a few instances from our sample of ministry inspections of agencies where program advisors had not visited at least the minimum 5% of provider homes.

Private-home day care agencies are required to inspect their home day care providers once every three months. Agency staff perform this inspection using their own checklist. We reviewed a sample of checklists developed by different agencies, and we noted that one agency's checklist was very detailed and generally complied with the Act but another was very brief and did not satisfy all the requirements. For example, there was no requirement to ensure that working smoke alarms are installed on every storey of the provider's residence. The Ministry does not provide a template to assist agencies in developing inspection procedures to ensure that all licensing requirements are assessed consistently province-wide. One agency operator we visited suggested that such assistance would be beneficial to all private-home day care agencies.

We accompanied program advisors during inspections of home day care providers and identified that the program advisors were performing different procedures at different provider locations. For example, one program advisor questioned home providers thoroughly about their knowledge of certain policies, whereas another advisor only asked the provider about the timeout component of the behaviour management policy. We also noted that procedures followed by the same program advisor differed across different home provider locations. For example, at two homes visited, one program advisor asked where the knives were kept to ensure that they were out of children's reach. However, the same program advisor did not ask this of the third home provider visited. Standardized ministry procedures would help ensure that all significant requirements are consistently reviewed.

RECOMMENDATION 6

To ensure that adequate policies and procedures are in place to verify that private-home day care agencies comply with legislative requirements and deliver services to children in a healthy, safe environment, the Ministry of Education should:

- develop more detailed inspection guidelines for program advisors;
- ensure that the minimum number of homes are visited during agency inspections;
- verify that the agencies' licensing inspection checklists are complete; and
- consider developing inspection checklists for agency staff.

MINISTRY RESPONSE

The Ministry recently updated its licensing directives to provide greater detail on private-home day care licensing, including clarifying the minimum sample size of homes to be visited for a private-home day care licensing inspection, and expectations regarding management oversight in approving these licenses.

In addition to clearer direction, the licensing inspection software is currently being updated to ensure that inspection checklists are completed in their entirety before a licence can be issued.

The Ministry will work with private-home day care agencies to create a sample agency checklist that sets out the minimum requirements for home inspections.

Review of Program Advisor Caseloads and Training Needed

During this audit, the Ministry employed about 48 permanent program advisors. To help address workload issues, the Ministry hired an additional 12 temporary staff on 18-month contracts, for a total of 60 active program advisors (exact numbers fluctuate due to events such as retirements, maternity leaves and new hires). At the time of our last audit in 2005, there were also about 60 program advisors, although, for some, their responsibilities included the inspection of facilities other than child care centres. Nevertheless, the number of child care centres has substantially increased, from 3,900 in 2005 to 5,200 in 2014, a 33% increase. In addition, program advisor caseloads increased proportionally (from 67 to 87 centres per advisor) and half of the program advisors were responsible for the inspection and oversight of more than 100 child care centres. **Figure 7** shows the average caseload by regional office.

While some advisors have significantly higher caseloads, one of the program advisors we spoke to stated that she has 125 centres to oversee and that some centres take more than a day to inspect. She also said that in order to keep up, she has had to conduct four inspections in one day. Such time constraints create a risk that advisors may not have sufficient time to perform thorough inspections, especially considering that the advisors' duties also include other major functions, such as licensing new operators, following up on serious occurrences/complaints and taking enforcement action when necessary.

To perform these duties, program advisors are expected to exercise a great deal of judgment. It is therefore important that they receive sufficient training and guidance to ensure that they exercise their judgment effectively. Legislation requires supervisors at child care centres to have a diploma in Early Childhood Education but a similar educational background is not mandatory for program advisors. At the three regions we visited, we found that only half of the program advisors had this qualification.

In July 2013, the Ministry's head office provided new program advisors with four days of training on strategies for preparing, executing and documenting licensing inspections. The Ministry informed us that all program advisors received this training by September 2014. However, at the time we interviewed them, most had not completed this training. Many stated that they were trained by job-shadowing a more experienced program advisor

Figure 7: Regional Office Caseload per Advisor, as of March 2014

Source of data: Ministry of Education

Regional Office	Permanent Program Advisors	Temporary Program Advisors	Total Program Advisors	Licensed Facilities	Centres per Advisor
Barrie	10	4	14	1,139	81
London	9	1	10	1,157	116
Northern	5	0	5	398	80
Ottawa	7	2	9	695	77
Toronto Central	10	2	12	958	80
Toronto West	7	3	10	872	87
Total/Average	**48**	**12**	**60**	**5,219**	**87**

for approximately one week and had not been officially trained on the policies or guidelines they are required to follow. One advisor even told us that she was unaware of the complaints policy and had not been informed that investigations required a review by the regional manager until months after she had begun working as a program advisor.

The program advisors we spoke with said that they would like to receive training on interpreting the legislation and on the specific procedures necessary to be performed to appropriately answer the questions on the inspection checklist. As well, program advisors informed us that they would like additional supports for ease of reference while performing inspections, such as mini-checklists that list all policies and their requirements, documentation required to be verified in staff and children's files and the requirements to be observed in the child care room. We noted that some program advisors had created such supports for their own use.

RECOMMENDATION 7

To help ensure the delivery of a high-quality, accessible and co-ordinated child care system in Ontario that encourages child cognitive, language and social development, the Ministry of Education should:

- re-evaluate the education requirement for program advisors on a go-forward basis to consider their education level and experience with child care operations;
- ensure that program advisors are provided with the necessary training and operational supports to effectively perform their job responsibilities; and
- assess program advisor caseloads to ensure that sufficient time is available to conduct thorough inspections.

MINISTRY RESPONSE

The Ministry has added a new position, Senior Program Advisor, in the regions to support regional oversight, enhance consistency and support training. This position requires the Registered Early Childhood Educator designation. The Ministry will continue to assess education requirements of branch staff.

Currently, almost 70% of program advisors have an Early Childhood Education diploma, which is an increase from 57% in 2008. The credentials of other advisors include Child and Youth Worker diploma and Bachelor/Master of Social Work. Many program advisors also have extensive experience in Ontario's child care sector. Any new program advisors are now required to have specialized knowledge of principles and practices of child learning and development, as well as extensive child care experience.

Training on program quality has been provided to regional managers and program advisors, and the Ministry is implementing a 12-month capacity building strategy in relation to *How Does Learning Happen?* for Ministry staff. As previously noted, various staff training programs have been ongoing since January 2012, and additional training on new and updated internal directives will begin in November 2014.

The Ministry has established a new Enforcement Unit with nine new staff to address matters relating to unlicensed child care. The unit is fully staffed and trained. There is a transition plan in place to move the responsibility for the investigations of unlicensed child care providers from the licenced child care program advisors to the Enforcement Unit by the end of 2014.

The Ministry will continue to analyze permanent staffing needs, but in the meantime, additional staff have been recruited, including 16 temporary program advisors in the regional offices to address overdue licences and support new applicants. In addition, the CCLS has maximized efficiencies for ministry staff by replacing manual, paper processes with a more streamlined automated system.

The Ministry is also conducting an analysis of licensing activities and caseloads to identify mechanisms to ensure even distribution of workload and appropriate allocation of resources across regions.

Criminal Reference Checks

Criminal Reference Checks for Some Prospective New Operators Not Obtained

Prospective operators are required to submit a criminal reference check before being licensed. The purpose of this check is to help ensure the safety and well-being of the children in care and the responsible operation of the licensed day care. The Ministry exempts applicants from submitting a check if all of the following criteria are met:

- The child care centre is incorporated and its board of directors do not have direct contact with children.
- The applicant currently holds a licence issued by the Ministry or operates another program in the community.
- The applicant has an established record of providing service in the community.

We reviewed a sample of new operators and found that 50% had proper criminal reference checks on file. However, we also noted that:

- For another 35% of the new operators sampled, we were informed that there was no criminal reference check on file because the applicant qualified for an exemption. However, in these cases program advisors had not documented how they determined that the exemption criteria had been met. Additionally, program advisors could not demonstrate how they would assess that a given operator had an established record of providing service in the community or that directors would not have direct contact with children.
- In the remaining 15% of cases, we were informed that although there was no criminal reference check on file, a check had been received but was subsequently destroyed or returned to the operator. In some of these cases, the program advisor had documented the names of the individuals who had submitted the criminal reference checks. However, in many other cases we noted that there was nothing on file to confirm that a reference check had been received. Ministry policy requires regional offices to develop procedures to safeguard criminal reference checks but none of the offices we visited had developed such procedures.

Ministry policy does not require operators to periodically submit up-to-date criminal reference checks. In one case, we noted that an applicant had submitted a criminal reference check dated 2008 with a 2013 application to open a new child care facility. We were informed that this applicant was relocating to the new facility and that the criminal reference check that had been submitted for the old location was being used.

Criminal Reference Checks for Some Child Care Staff Not Reviewed by the Ministry

All new operators are required to develop criminal reference check policies for child care staff and volunteers. The Ministry's policy, developed in 1995, states that the criminal reference check makes up part of the hiring process and, even if a check reveals a history of criminal charges or convictions, that does not necessarily preclude employment. Operators are advised to consider the nature and circumstances surrounding any past charges and convictions, and are given sole responsibility for hiring decisions.

During inspections, the Ministry requires operators to confirm that they have developed and implemented criminal reference check policies. We accompanied program advisors on several inspections and observed that program advisors reviewed staff files to determine if a criminal reference check had been received. However, at times these checks were kept in sealed envelopes, which the advisor did not open. As a result, program advisors did not verify that a check had been received or, if so, what information it revealed. On one visit, we observed a food preparer engaging with children but the program advisor had not ensured that a criminal reference check was required or had been received for this employee.

We also noted that in one recent situation, a child care employee was charged with sexual interference with a child subsequent to being hired. This offence related to a child who was not enrolled at the centre where this individual was employed. Although the operator terminated this person's employment, the program advisor in charge of inspecting this centre could not confirm whether a criminal reference check was on file for this employee or whether the individual had had any previous criminal activity.

We reviewed a number of criminal reference check policies developed by operators to assess whether they complied with ministry requirements. While some operator policies were deficient, other operators had included best practices that went beyond ministry requirements:

- Ministry criminal reference check policy applies only to child care employees and volunteers who have direct contact with children. However, some operator policies also require criminal reference checks from staff who do not have direct contact with children, such as cooks, drivers and maintenance employees.
- Ministry criminal reference check policy does not require child care operators or their staff to periodically submit updated checks. Some operators require that a criminal reference check be performed every five years.
- Some child care operators require a vulnerable sector check be done rather than the regular criminal reference check required by the Ministry. A vulnerable sector check is designed to screen individuals who wish to work with children or anyone else considered vulnerable or at greater risk than the general population. It is a more thorough check that includes additional searches such as restraining orders, pardoned convictions and police contacts for threatening or violent behaviour.

We noted that several school boards in Ontario have recently begun to require vulnerable sector checks from people volunteering or seeking employment in elementary and secondary schools. Some municipalities also require vulnerable sector checks for child care workers. In addition, both Alberta and Saskatchewan require child care staff to obtain vulnerable sector checks, as does Ontario's Ministry of Health and Long-Term Care for people seeking employment in nursing homes or long-term-care facilities.

RECOMMENDATION 8

To help ensure that child care operators provide a safe and healthy environment that encourages the social, emotional and intellectual development of children, the Ministry of Education should:

- review its policy regarding criminal reference checks to assess whether it needs to be updated, who it explicitly applies to and the appropriateness of exemptions;
- confirm that criminal reference checks have been obtained and are on file for all new operators and verify that board directors and other staff without checks do not have direct contact with children;
- require that all criminal reference checks for operators and child care staff be periodically updated; and
- require vulnerable sector checks in addition to regular criminal reference checks.

MINISTRY RESPONSE

The Ministry is in the process of updating the internal licensing directive regarding criminal reference checks to clarify the requirements of the Ministry's Criminal Check Policy, including standards for documentation. Training on the updated directive will be provided to regional offices.

To enhance consistency and improve documentation, the Ministry will put in place a regular process of file review to assess compliance with documentation standards.

Bill 10, if passed, will include a number of provisions providing for authority related to criminal reference checks that will allow the director or inspector to require a criminal reference check from licensed child care providers and any person prescribed by regulation. The proposed legislation would also provide authority for a director or inspector to require a criminal reference check from any person where there are reasonable grounds to believe the person has been convicted of specified offences set out in the Act.

Bill 10, if passed, will also provide the authority to make regulations to require child care providers to screen staff and volunteers using screening measures that could include criminal reference checks, regular declarations and vulnerable sector screening.

Serious Occurrences

A regulation to the Act outlines five categories of grievous incidents, called serious occurrences, that child care operators must report to the Ministry: the death of, serious injury to, or abuse of a child; an operational safety threat; and a disaster (such as a fire on the premises). A Ministry policy has added two more categories of serious occurrence: any situation where a child has gone missing and any complaint "by or about a child or any other serious occurrence that is considered serious in nature." Serious occurrences often involve medical services, children's aid and/or emergency services. The regulation also requires child care operators to develop written policies containing procedures for responding to serious occurrences and reporting them to the Ministry. From January 2009 through May 31, 2014, child care operators reported over 29,000 serious occurrences to the Ministry, as detailed in **Figure 8**.

More Timely and Complete Reporting of Serious Occurrences Required

We reviewed a sample of complaints that the Ministry had received from the public and identified that some described incidents that qualified as serious occurrences but had not been reported to the Ministry. These incidents involved, for example, children who had been left unattended and a child who had received a concussion while in the centre. As a result, we were concerned that operators are not reporting all serious occurrences to the Ministry.

Figure 8: Serious Occurrences Reported to the Ministry, by Type, 2009–2014

Source of data: Ministry of Education and municipal service managers

Serious Occurrence (Calendar Year)	2009	2010	2011	2012	2013	2014*	Total
Death of a child	2	0	3	0	1	0	**6**
Serious injury to a child	2,471	2,623	2,656	2,546	2,351	866	**13,513**
Abuse of a child	506	446	412	392	377	202	**2,335**
Fire or other disaster	978	747	1,289	656	1,154	267	**5,091**
Physical or safety standards	351	399	480	456	421	165	**2,272**
Missing child	420	467	437	428	383	150	**2,285**
Serious complaint	708	603	685	628	698	608	**3,930**
Total	**5,436**	**5,285**	**5,962**	**5,106**	**5,385**	**2,258**	**29,432**

*To May 31, 2014.

For each incident, the operator must post a serious occurrence notification form in the child care centre or private-home day care. Operators also must submit a notification report that includes a description of the occurrence within 24 hours. Ministry policy states that the 24-hour clock starts when child care staff become aware of an incident or when they deem the incident to be serious (called the "deemed date"). We assessed the incident date, deemed date and the notification date of a sample of serious occurrences and found that for almost 50% of the cases reviewed, the deemed date was identical to the notification date, even though the incident had occurred, on average, seven days earlier. For an additional 30% of our sample, the occurrence was reported an average of six days after having been deemed to be serious, including a case of alleged physical abuse by child care staff that was witnessed by another staff member. For most of those cases, the program advisors told us that child care staff had not informed their supervisors about the occurrence in a timely manner, which resulted in the Ministry not being informed within 24 hours as required.

Within seven business days after an operator notifies the Ministry of a serious occurrence, the operator must submit an inquiry report. This report includes the current status of the situation and provides details of any proposed further action. For most of the serious occurrences we reviewed, an inquiry report was submitted within seven business days as required. In fact, half of the inquiry reports were received on the same day as the notification reports.

Upon receiving the inquiry report, the Ministry assesses the operator's actions to determine whether a further review should be undertaken. We noted that program advisors sometimes communicate with operators to obtain additional information about the serious occurrence so that they can determine whether the operator took appropriate action. However, the Ministry does not have specific guidelines to assist program advisors in determining how to investigate serious occurrences. By contrast, the Ministry's complaints policy requires program advisors to perform a site visit within five business days of receiving a complaint.

For occurrences that suggest a child is in need of protection or has suffered abuse, other authorities such as the police, children's aid and public health may be involved. These authorities usually conduct an investigation and then the Ministry is required to follow up to determine if there are any related child care concerns. We reviewed several cases involving other authorities and found that, at times, program advisors had followed up solely with the child care operator to determine the outcome of an investigation. For example, in two of the cases where a child died, the operator informed the advisor that the child had stopped breathing. The advisor did not know the actual cause of death or whether any child care weaknesses might have been contributing factors. Although the Ministry investigates such incidents, it is not always informed of the results of investigations done by other authorities. In April 2014, one of the regional offices visited signed a protocol with the local children's aid society to enhance communication, collaboration and co-ordination. Establishing similar protocols with such authorities would assist regional offices in obtaining reliable information regarding the outcome of any investigations and thus might not only prevent duplication of efforts but provide insight to reduce the risk of future serious occurrences.

Serious Occurrence Process Not Used Effectively to Help Ensure Quality Care

During inspections, program advisors are supposed to verify that operators have serious occurrence policies in place that contain all of the ministry requirements. However, we found that many of the operator policies we reviewed did not include all ministry policy requirements. For example, some did not include the requirements to submit an enquiry report within seven days, notify the coroner in the event of death, contact children's aid if there is suspected abuse and report all incidents to a designated staff member. Some operator policies did not even identify the seven serious occurrence categories. Consequently, we concluded that program advisors were not adequately reviewing operator serious occurrence policies during inspections.

Ministry policy and legislation are quite specific as to what constitutes a serious occurrence. However, we identified a number of incidents that did not meet the legislative and ministry definition of a serious occurrence. For example, we noted cases where a child was hurt and had first aid applied but the injuries were minor. To report such incidents as serious not only causes unnecessary work for both ministry and child care staff but also distorts the overall picture of serious occurrences. We noted a best practice implemented by one operator whereby staff were required to sign and date a declaration that they are aware of the serious occurrence policy, that they will follow the outlined procedures and that the policy will be reviewed with them on an annual basis.

Child care operators are required to complete an annual summary report of their serious occurrences by type, and program advisors are expected to review this report during inspections. However, the inspection checklist does not include a question to prompt program advisors to perform this procedure, and we did not observe any advisors doing so during the inspection visits we attended. The Ministry has stated that such serious occurrence reporting provides an effective means of monitoring the appropriateness and quality of service delivery. However, we found that advisors do not analyze serious occurrences at the operator level to help identify concerns about the quality of child care being delivered. We selected a sample of serious occurrences, where sufficient information was available and noted that a few operators had over 50 occurrences since 2009, as shown in **Figure 9**.

Operators are required to post a Serious Occurrence Notification Form in a conspicuous place near

Figure 9: Number of Serious Occurrences per Operator, 2009–2014[1]

Source of data: Ministry of Education and municipal service managers

# of Serious Occurrences per Operator	# of Operators	Total # of Serious Occurrences
More than 50	9	634
41–50	18	786
31–40	40	1,396
21–30	169	4,123
11–20	572	8,226
6–10	863	6,593
1–5	3,059	7,052
Unknown[2]	–	622
Total	**4,730[3]**	**29,432**

1. To May 31, 2014.
2. Insufficient information was available to categorize these serious occurrences.
3. Does not include all operators, because some did not have any serious occurrences on record.

an entrance commonly used by parents. This form is to provide a brief description of the incident; the date, time and place of the occurrence; the action taken by the operator; and any long-term plans to minimize the likelihood of a future recurrence. The purpose of this notification is to provide parents with information about serious occurrences that happen at the facility their child attends. We noted a complaint from a parent stating that notification forms were not being posted. Program advisors told us that notification forms are to be retained on file and are reviewed during licensing inspections. However, since there is no online posting of serious occurrences on the Ministry's child care website, program advisors may not be able to verify that the form is actually posted unless they make a site visit.

RECOMMENDATION 9

To help reduce the risk to the health and safety of children at child care facilities and to appropriately address, report and analyze serious incidents, the Ministry of Education should:

- develop guidelines for investigating and following up on serious occurrences;
- develop procedures for verifying that child care staff are aware of serious occurrence policies, including how to identify, respond to, document and report serious occurrences;
- take more effective action against operators that do not comply with legislated reporting requirements, including those that do not properly report serious occurrences;
- consider developing protocols with other investigative authorities to share information;
- analyze serious occurrences by operator to identify any potential operator or systemic concerns; and
- consider posting serious occurrences online where parents can readily access them.

MINISTRY RESPONSE

The Ministry has recently implemented a range of improvements related to serious occurrences, including a comprehensive review, now under way, of its policy (Serious Occurrence Reporting Procedure) for licensed child care programs. This review included an analysis of serious occurrence categories, definitions and reporting procedures. On the basis of this analysis, as well as on feedback from child care stakeholders, the Ministry will update its policy and internal licensing directive. Training on the new policy and directive will be conducted on serious occurrence reporting for operators and on serious occurrence investigation and follow-up for ministry staff.

The CCLS has introduced a standard process for documenting ministry serious occurrence follow-up activities. This will provide program advisors with a view of the child care operator's serious occurrence history to identify patterns and assist in the follow-up.

The new legislation, if passed, would provide a range of new and enhanced enforcement options that could be used to take effective action against operators that are in contravention of legislative and regulatory requirements, including requirements to properly report serious occurrences. The new and enhanced enforcement options include compliance, protection and restraining orders, and administrative penalties.

The Ministry has met with the ministries of Children and Youth Services, Health and Long-Term Care, Municipal Affairs and Housing, and Community Safety and Correctional Services regarding sharing information relating to concerns about licensed child care programs. The Ministry is also working with the Office of the Chief Coroner to explore a process for information sharing on child deaths in child care settings.

In addition, if passed, Bill 10 would set out those persons designated by regulation (these could include public health officials and children's aid society officials) who have a duty to report when they observe in the course of their employment any situations where a child's safety is at risk. The proposed legislation will also provide clarity regarding the collection and sharing of personal information for specified purposes, including ensuring compliance with the Act and regulations.

Serious occurrence notification forms are posted in day nurseries and private-home day care locations for a minimum of 10 business days. The Ministry is currently considering options for posting serious occurrence information online.

Complaints

Most complaints received by the Ministry about child care operators come from parents or child care staff. The Ministry does not track or analyze the types of complaints received but we determined that the majority of the complaints relate to insufficient staff given the number of children present; unsupervised children; the cleanliness of child care facilities; and allegations of abusive staff behaviour. The Ministry considers complaints from the public to be an important aid in enforcing the *Day Nurseries Act*. As shown in **Figure 10**, the Ministry received a total of almost 2,300 complaints over five years from January 1, 2009, to May 31, 2014.

According to Ministry policy, when a complaint is received, program advisors are required to contact complainants within three days to inform them that an investigation will be conducted. Within five days of receiving the complaint, the program advisor must investigate by conducting an unannounced site visit to verify the substance of the complaint and to address any concerns that may warrant attention. Any decision to investigate complaints by another means must be approved and documented by the regional manager. When an investigation has been completed, a letter is to be sent to the complainant advising that the Ministry has followed up on their concerns. As the final step in the complaints process, regional managers review the actions taken by the program advisors to ensure that complaints are being investigated properly.

When we reviewed a sample of complaints received by the Ministry, we found that the majority of the complaints had been acknowledged immediately, because they were received over the telephone and most were investigated with a site visit within the required five business days. Complaints received by email or letter were also responded to within the required time frame. However, in almost all cases advisors did not contact the complainant as required after the investigation had been completed.

We reviewed several complaints from child care employees about centres that did not have enough staff given the age and number of children present at a particular time. Other complaints made by child care staff noted that operators had been falsifying work records to appear compliant with staff-to-children ratios. Given the nature of and potential risk posed by such complaints, inspections may not effectively detect such conditions if, as previously noted, the timing of those inspections is predictable. Therefore, more frequent unannounced site visits may be warranted to reintroduce the element of surprise into the Ministry's oversight process.

Figure 10: Number of Complaints Received by the Ministry, 2009–2014

Source of data: Ministry of Education

Calendar Year	# of Complaints
2009	434
2010	451
2011	334
2012	272
2013	528
2014*	266
Total	**2,285**

*To May 31, 2014.

From the complaints we reviewed, we found that the average time between the program advisor completing an investigation and the required regional manager review was approximately 150 days. The timing of this review ranged from immediately after the program advisor's investigation was complete to over 500 days later. Untimely review may result in delaying the regional manager's assessment of the program advisor's actions, which could in turn delay necessary corrective actions aimed at reducing threats to child health and safety.

RECOMMENDATION 10

To ensure that complaints are adequately investigated and to help identify concerns that may not be readily apparent during inspections, the Ministry of Education should:

- perform timely management review of reported complaints and the results of investigations;
- confirm with complainants that their concerns have been investigated; and
- regularly review and analyze the nature of complaints received and use this information to develop procedures such as conducting surprise site visits to child care operations to help mitigate the risks identified.

MINISTRY RESPONSE

The Ministry is updating its internal licensing directive regarding the procedures for responding to complaints about licensed child care providers. The directive will be informed by internal file reviews and will include performance standards for follow-up, management review and communication with the complainant.

The Ministry is also developing a new module in the CCLS where regional offices will manage licensed complaints. The new module will establish a consistent business process for dealing with complaints and will enhance the Ministry's capacity to conduct data analysis to identify trends and emerging issues.

Training on the updated directive and new CCLS module will be conducted in November 2014.

Chapter 3

Section
3.03

Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight

Background

The Financial Services Commission of Ontario (FSCO) is an agency accountable to the Ministry of Finance and responsible in Ontario for regulating pension plans; the insurance industry; the mortgage brokerage industry; credit unions and caisses populaires; loan and trust companies; and co-operative corporations. Credit unions and caisses populaires differ from banks in that they are owned by their members and are generally non-profit organizations. Co-operative corporations (known as co-ops) are owned and controlled by their members and pool their resources to provide members with products, services, workers and housing.

FSCO's mandate is to provide regulatory services that protect the public interest and enhance public confidence in Ontario's regulated financial sectors through registration, licensing, monitoring and enforcement. FSCO also makes recommendations to the Minister of Finance on legislation and regulations relating to regulated financial sectors. FSCO's senior official, the Superintendent of Financial Services, is responsible for the general supervision of pensions and the regulated financial sectors under the *Financial Services Commission of Ontario Act, 1997* and 11 other statutes that govern the regulated sectors.

Financial institutions are subject to both market-conduct regulation and prudential regulation.

Market-conduct regulation focuses on the relationships between consumers and licensed or registered businesses and individuals, and between pension plan members and pension plan administrators. Market conduct, or the conduct of business, is influenced by many factors, including the legal framework, established best practices, codes of conduct and the expectations of consumers or pension plan members.

Prudential regulation focuses on financial stability and the long-term ability to meet financial obligations. This type of oversight applies to financial institutions such as insurance companies, credit unions or caisses populaires, and pension plan administrators.

In the 2013/14 fiscal year, total FSCO operating expenditures were $87.9 million, of which about $29 million was spent by its Pension Division and Licensing and Market Conduct Division. The remaining expenditures related to regulation and oversight of the auto insurance sector, the subject of an audit we conducted in 2011. FSCO employs about 150 staff who deal directly with pension plans and the regulated financial sectors, and it recovers 98% of its costs in these areas from regulated bodies.

Pensions

The Pension Division of FSCO is responsible for the administration and enforcement of the *Pension Benefits Act* (Act) and supporting regulations. The Act requires every employer that establishes a pension plan in Ontario to register the plan with FSCO and comply with the reporting and fiduciary responsibilities set out in the Act. Pension plans are administered by a plan administrator, who may also be the employer sponsor. The Act covers employees who currently work, or previously worked, in Ontario (and in some cases other jurisdictions) and who are members, former members with a deferred pension or retired members of a provincially regulated pension plan. Pension plans in federally regulated industries such as banking, telecommunications and airlines are overseen by the federal Office of the Superintendent of Financial Institutions.

The pension benefits paid to members depend on whether the plan is a defined-benefit plan, defined-contribution plan, or a hybrid of the two.

In a defined-benefit pension plan, the amount of pension income a member will receive each year after retirement is predetermined, and calculated using a defined formula usually based on years of employment, age at retirement and salary level, or a flat dollar amount. While employers and employees (in contributory plans) contribute to the plan, employers typically assume the financial risk that there may not be enough money in the plan to pay for future benefits because of volatility due to fluctuating investment returns and interest rates.

A defined-contribution pension plan, on the other hand, is less risky for employers because the level of future annual pension payments is not predetermined. Instead, it is based solely on the sum of employer and employee contributions over time and investment returns on those contributions, minus administration costs. Members do not know how much their pension benefits will be until they retire, and the plan administrator has no obligation to pay out more than the funds available in the plan.

Figure 1 describes the more than 7,300 pension plans, with about 3.8 million members, registered with FSCO. As of August 31, 2014, FSCO regulated 3,487 defined-benefit plans, 3,150 defined-contribution plans and 686 hybrid plans. For purposes of reporting, FSCO treats all hybrid plans as defined-benefit plans. The **Appendix** provides a three-year summary of pension plans by type and membership.

The Pension Benefits Guarantee Fund (PBGF) was established in 1980 under the *Pension Benefits Act* and provides protection, subject to specific maximums and exclusions, to Ontario members and beneficiaries of single-employer-sponsored defined-benefit pension plans in the event the plan sponsor becomes insolvent. The PBGF does not cover certain types of small plans (for example, "individual pension plans," which include plans of up to three members); all multi-employer and jointly-sponsored defined-benefit plans; or large plans listed in the regulations to the *Pension Benefits Act* sponsored by named private or government employers, including the Ontario government, several municipalities, General Motors of Canada Ltd., and certain plans of Essar Steel Algoma Inc.; or any defined-contribution pension plans.

The PBGF was intended to be self financing through annual premiums paid by single-employer-sponsored defined-benefit pension plans. Since 1980, the PBGF has collected $1 billion in premiums, and in 2010 it received a $500-million grant from the Ontario government. Over the same period, it paid out $1.4 billion in claims.

Financial Services

The Licensing and Market Conduct Division administers and enforces the requirements of the *Insurance Act*, the *Credit Unions and Caisses Populaires Act*, the *Co-operative Corporations Act*, the *Mortgage Brokerages, Lenders and Administrators Act, 2006*, and the *Loan and Trust Companies Act*. **Figure 2** shows the type and number of individuals and businesses in the regulated financial sectors

Figure 1: Pension Plans Registered with FSCO, as of August 31, 2014

Source of data: Financial Services Commission of Ontario

Type of Plan	# of Plans	# of Members (million)	Description of Plan
Single-employer pension plan (SEPP)	7,194	1.7	A single employer, or several related employers within a corporate group, participate and contribute to the same pension plan. A SEPP can be provided to all or just certain classes of employees. It is usually administered by the plan sponsor (employer) with input from members on certain plans. For defined-benefit plans, the employer is responsible for covering any pension obligations that exceed pension assets. For defined-contribution plans, the pension obligations equal the assets available. About half of the defined-benefit plans are covered by the Pension Benefits Guarantee Fund, whereas the remainder either do not qualify or are exempt.
Multi-employer pension plan (MEPP)	119	0.9	Two or more unrelated employers participate and contribute to the same pension fund. MEPPs are typically established in industries with unionized employees. The employees' collective agreement establishes employers' contributions. The level of member benefits is established by the board of trustees that administers the MEPP. Members' pensions are considered a target and are not fixed; should employers' contributions not be sufficient to cover pension benefits then members' benefits could be reduced. These plans are not covered by the Pension Benefits Guarantee Fund.
Jointly sponsored pension plan (JSPP)	10	1.2	Public sector plans, including municipal and provincial government workers, teachers, and public transit. Decision making for a JSPP is shared by the employer(s) and plan members. This includes all decisions about the terms and conditions of the plan, any amendments to the plan, and the appointment of the plan administrator. If a jointly sponsored pension plan becomes underfunded, both plan members and the employer are jointly responsible for making any required additional contributions to deal with the shortage of funds. No reduction in earned pension benefits is permitted, unless the plan is wound up. These plans are not covered by the Pension Benefits Guarantee Fund.
Total	**7,323**	**3.8**	

that the Licensing and Market Conduct Division registers or licenses.

The Division examines market conduct by investigating all complaints related to the regulated sectors for possible enforcement action, and by conducting on- and off-site compliance audits, or examinations, for certain sectors.

Audit Objective and Scope

Our audit objective was to assess whether FSCO had effective systems and procedures in place for its regulation of pension plans and financial services (insurance, mortgage brokers, credit unions, caisses populaires, loan and trust companies, and co-operative corporations) in Ontario to:

Figure 2: Financial Institutions Regulated by FSCO, as of March 31, 2014*

Source of data: Financial Services Commission of Ontario

Financial Sector	# of Registrants or Licensees	Description of Key Activities Covered and Registration or Licensing Requirements
Insurance companies	339	Automobile insurance, life insurance, health and travel insurance, and property and casualty insurance are covered. All insurance companies, agents, corporate insurance agencies and insurance adjusters operating in Ontario must be licensed with FSCO. However, most insurance companies are federally incorporated and are regulated by the federal Office of the Superintendent of Financial Institutions. FSCO has arrangements in place that permit insurance brokers to be licensed and regulated by their association, the Registered Insurance Brokers of Ontario.
Insurance agencies	5,145	
Insurance brokers	17,875	
Insurance agents	48,213	
Insurance adjusters	1,728	
Mortgage brokerages	1,172	All mortgage-brokering lending activities are regulated by FSCO. All mortgage brokerages, brokers, agents and mortgage administrators are required to be licensed by FSCO.
Mortgage brokers	2,406	
Mortgage agents	7,959	
Mortgage administrators	113	
Credit unions and caisses populaires	129	All credit unions, caisses populaires and co-operative corporations operating in Ontario are required to register with FSCO. The Deposit Insurance Corporation of Ontario is a Crown agency established under the *Credit Unions and Caisses Populaires Act, 1994* to protect depositors of Ontario credit unions and caisses populaires from loss of eligible deposits, and supervise their financial solvency. FSCO's responsibility is limited to investigating complaints on their market conduct.
Co-operative corporations	1,775	
Loans and trusts companies	52	All loans and trust corporations must be federally incorporated and are regulated by the Office of the Superintendent of Financial Institutions. To operate in Ontario, loans and trust corporations must register with FSCO.

* FSCO does not regulate banks, mutual funds or securities handlers in Ontario, which are regulated by the federal Office of the Superintendent of Financial Institutions, Mutual Fund Dealers Associations of Canada, and Ontario Securities Commission respectively.

- ensure compliance with relevant legislation and its own policies established to protect the public interest and to enhance public confidence; and
- measure and report on the effectiveness of its regulatory oversight.

Senior FSCO management reviewed and agreed to our audit objective and criteria.

Our audit work included interviews with FSCO management and staff, as well as reviews and analysis of relevant files and examinations conducted by FSCO; registration, licensing and enforcement databases; and policies and procedures.

We interviewed the chairpersons of FSCO's various pension advisory committees on actuarial services, investments, administration and multi-employer plans. We also met with representatives of the federal Office of the Superintendent of Financial Institutions in Ottawa to discuss their perspective on oversight of federally regulated pension plans. We met with several stakeholders' associations in the mortgage and insurance sectors, as well as with representatives of two mortgage brokerage firms. We also spoke with representatives of the Ontario Securities Commission.

We researched regulatory legislation and operations in several other provinces and jurisdictions, and we engaged an independent expert on pensions.

Our audit fieldwork was conducted from January to July 2014, and we primarily focused on FSCO's activities over the three fiscal years from 2011/12 to 2013/14.

Summary

The growing level of underfunding in defined-benefit pension plans in Ontario is a significant concern (underfunded plans are those that would have insufficient funds to pay full pensions to their 2.8 million members if they were wound up immediately).

As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded, compared to 74% as of December 31, 2005. Over the same eight-year period, the total amount of underfunding of these plans grew from $22 billion to $75 billion.

In the wake of the 2008 economic downturn, the government provided temporary solvency funding relief in 2009 to pension plan sponsors, allowing them more time to make additional payments to achieve full funding. In November 2012, additional measures were introduced to extend solvency funding relief because the underfunding of plans had not improved since investment returns remained volatile and interest rates remained low.

FSCO's Superintendent has limited powers under the *Pension Benefits Act* (Act) to deal with administrators of severely underfunded plans, or those who do not administer plans in compliance with the Act. FSCO's federal counterpart, the Office of the Superintendent of Financial Institutions, has the legal authority to terminate a plan, appoint a plan administrator or act as an administrator even if the plan is not terminated, and to require more frequent actuarial valuations of pension plans. FSCO can only prosecute an administrator or must order a plan to terminate before it can then appoint or act as the administrator. In addition, FSCO cannot impose fines on those who fail to file information returns on time; we noted that FSCO took little or no action against late filers.

We concluded that FSCO should make better use of the powers it already has under the Act to monitor pension plans, especially those that are underfunded. Over the last three fiscal years, FSCO conducted on-site examinations of only 11% of underfunded plans on its solvency watch list; at this rate, it would take about 14 years to examine them all. As of September 2014, it was still in the process of finalizing its risk-based methodology for selecting higher-risk plans to examine. The examinations FSCO did conduct did not adequately cover significant areas, such as whether investments complied with federal investment rules required for pension plans. In addition, FSCO's efforts and processes to monitor the $19.2 billion in investments managed by administrators of defined-contribution pension plans were weak.

The information provided by plan administrators and made public by FSCO would be of little use to plan members for assessing and comparing the performance and administration of their pension plans with other plans or relevant benchmarks; nor would members find it of value in assessing whether FSCO had adequately protected their interests.

Although the trend in claims has improved, it is uncertain whether the province's Pension Benefits Guarantee Fund (PBGF), designed to protect members and beneficiaries of single-employer defined-benefit plans in the event of employer insolvency, is itself sustainable. The PBGF was intended to be self-financing through annual premiums charged to pension plans; since the plan's inception in 1980, however, the government has provided a total of $855 million in loans and a grant to help cover claims payouts of $1.4 billion. The PBGF has no legal obligation to pay claims in excess of its available assets.

A $500-million grant in 2010, along with increases in premium rates introduced in 2012, have helped the PBGF's financial position; it had a $375-million surplus as of March 31, 2014. However, in the event of another economic downturn, this surplus would be quickly exhausted given that the cumulative deficits of pension plans covered by the PBGF as of March 31, 2014, were almost $28.9 billion. This represents an increase of more than 400% since 2008—even though the number of pension plans covered actually dropped by 19% since then.

With respect to the Licensing and Market Conduct Division's (Division) oversight of regulated financial service sectors, we noted several areas that it needs to address, particularly to reduce investor risk and protect consumers:

- ***Minimal oversight of co-ops.*** FSCO oversees the registration of co-operative corporations (co-ops), which can raise millions of dollars from investors for ventures such as renewable energy initiatives. Over the last three years, FSCO gave 57 approvals for co-ops to raise up to $371 million. However, it does no criminal background checks of key members before a co-op is registered and begins to raise money; nor does it conduct ongoing monitoring of their activities. Furthermore, it cost FSCO over $500,000 annually to review and approve co-op offering statements, but FSCO can charge only $1,000 in total fees for this service.
- ***Monitoring of life insurance agents weak.*** Weaknesses in FSCO's online licensing system allow life-insurance agents to hold active licences without having entered proper information about whether they have insurance for errors and omissions (to cover client financial losses arising from agent negligence or fraud). FSCO does not verify whether an agent's errors and omissions insurance is valid, and relies on insurance providers to notify it of cancelled policies—even though it had no formal arrangements with the providers to do so. FSCO has also renewed licences of agents who were disciplined by other financial service regulators, those who declared bankruptcy, and those with criminal records, because it did not investigate their applications.
- ***Delays in handling complaints.*** The Division incurred significant delays over several serious complaints and the investigations ended in weak enforcement action. For instance, serious allegations of fraud and forgery against licensed agents took years to investigate and the agents' licences remained active during the investigation.
- ***Division proactive examinations limited to the mortgage brokerage sector.*** The Division does not examine other regulated financial service sectors unless an investigation has been initiated due to a complaint. In addition, the Division did not have adequate procedures and information-sharing arrangements with other financial service regulators to ensure FSCO is notified immediately when agents are disciplined. Even when FSCO was aware of disciplinary action against an agent, it did not routinely initiate its own proactive examination into the business practices of these agents.

In addition, we observed that the large numbers of registrants and licensees in several regulated financial services industries, including mortgage brokerages and insurance, may justify these industries assuming greater responsibility for self-oversight. This could include establishment of self-regulation and consumer-protection funds, as is currently the case with many other similar self-regulated service industries. However, FSCO would have to seek legislative changes in consultation with the Ministry of Finance and government officials for this to occur.

Detailed Audit Observations

Pensions

Increasing and Significant Underfunding of Defined-benefit Pension Plans

As of December 31, 2013, the pension incomes of approximately 3.4 million people in Ontario depended on defined-benefit pension plans, which had assets of $420 billion. For the pension plans to pay benefits to members on retirement, the assets of the plan must be sufficient to meet the pension promise, also known as the pension liability.

A plan's investment assets are composed of regular contributions by the employer and, when applicable, the employees, plus income made on investing the assets, less benefits paid out to pensioners and expenses to administer the plan. Investment assets are susceptible to fluctuations in returns, and to the number of people contributing to the plan and the number receiving benefits.

Pension liability is affected by interest rates (used to calculate the present value of pension amounts payable), by the number of members, and by how long the members are expected to live and continue to collect pensions. As a result, it is important to regularly monitor defined-benefit plan assets, employer and employee contributions, and the predicted pension liability to ensure there will be sufficient funds to pay out benefits when required.

A defined-benefit pension plan has a solvency deficiency, or funding deficit, when it is underfunded and does not have enough in assets to pay its pension liability if the plan were to wind up immediately. The *Pension Benefits Act* requires the employer, as well as employees for jointly sponsored pension plans, to increase contributions by making additional payments for up to five years to eliminate the solvency deficiency and make the plan fully funded. Similarly, should a pension plan have a surplus, the plan administrator can ask to make lower contributions.

Since the 2008 economic downturn in Ontario, the overall solvency deficiency of active defined-benefit pension plans has worsened, as follows:

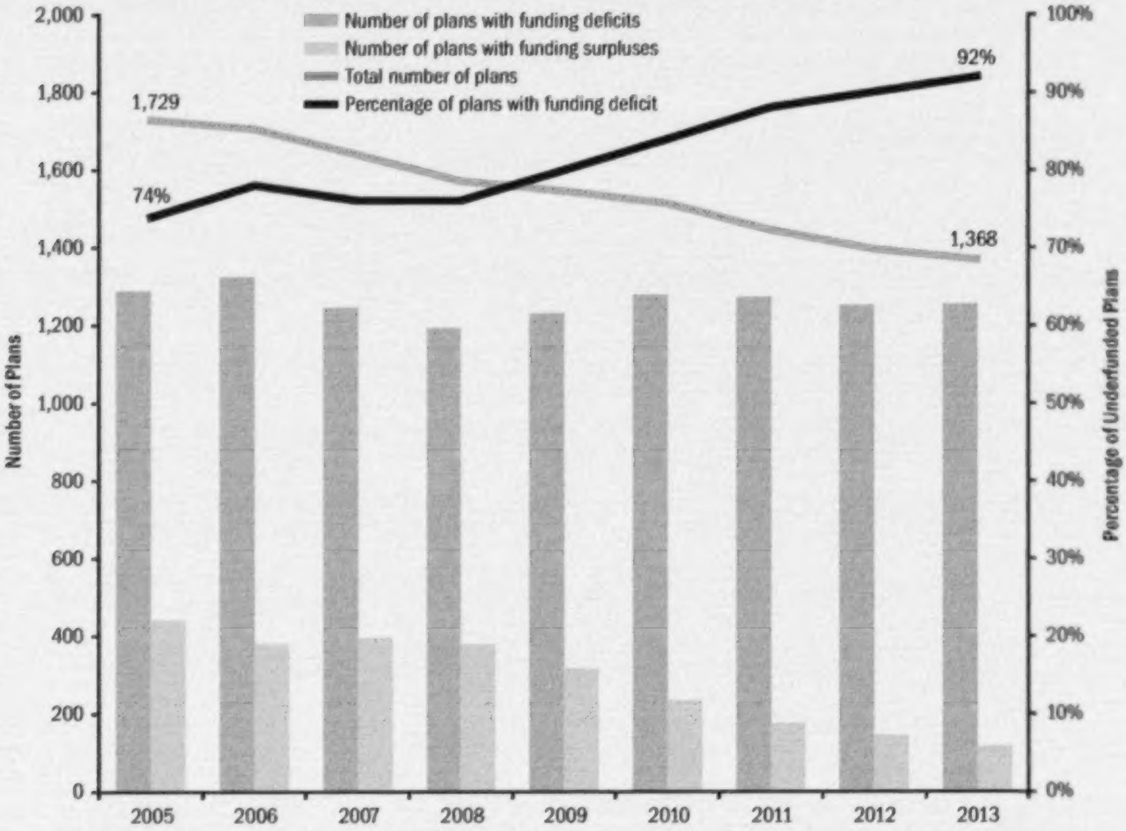
- As of December 31, 2013, 92% of defined-benefit plans were underfunded and did not have sufficient assets to pay members their full pensions if the plans were wound up immediately, as illustrated in **Figure 3**. That percentage is up from 74% for the year ended December 31, 2005 (the earliest year for which FSCO could provide information). The 92% of defined-benefit plans that are currently underfunded have more than 2.8 million members.
- As **Figure 4** indicates, the total amount of underfunding of defined-benefit pension plans in Ontario has grown from $22 billion as of December 31, 2005, to $75 billion as of December 31, 2013. The total liability of these plans as of December 31, 2013, was $370 billion, and total assets were $295 billion, with the difference—$75 billion—being the underfunding. The $75 billion breaks down as follows: $33 billion for single-employer plans; $16 billion for multi-employer; and $26 billion for jointly sponsored.
- As **Figure 5** indicates, all types of defined-benefit plans—single-employer, multi-employer and jointly sponsored plans—have had the amount of their underfunding increase since the 2008 economic downturn.

In the wake of the economic downturn, the government introduced measures in 2009 providing temporary solvency funding relief to pension plan sponsors, allowing them more time to make additional payments to achieve full funding. They could elect to defer by one year the new additional payments required in the first valuation after September 30, 2008. In addition, all pre-existing additional payments owed by a plan sponsor could also be consolidated and paid over a new five-year schedule. Any new solvency deficiency could also be paid over an additional five years if that was approved by members of the pension plan. Plan administrators could elect any or all of the solvency relief funding options without approval from FSCO. There were 471 pension plans, or 30% of all active defined-benefit pension plans, that elected solvency funding relief in 2009.

By 2012, the solvency deficiency of defined-benefit pension plans from 2008 had not improved because investment returns continued to be volatile and interest rates remained low, so the government extended the solvency funding relief by introducing additional measures on November 1, 2012. The extension covered the first actuarial valuation report on or after September 30, 2011, and before September 30, 2014. The new measures allowed pension plan administrators to consolidate their existing remaining additional solvency payments into a new five-year schedule and allowed any newly filed solvency deficiency to be paid off over

Figure 3: Number and Percentage of Active Defined-benefit Plans with Funding Surpluses and Funding Deficits, years ending December 31, 2005–2013*

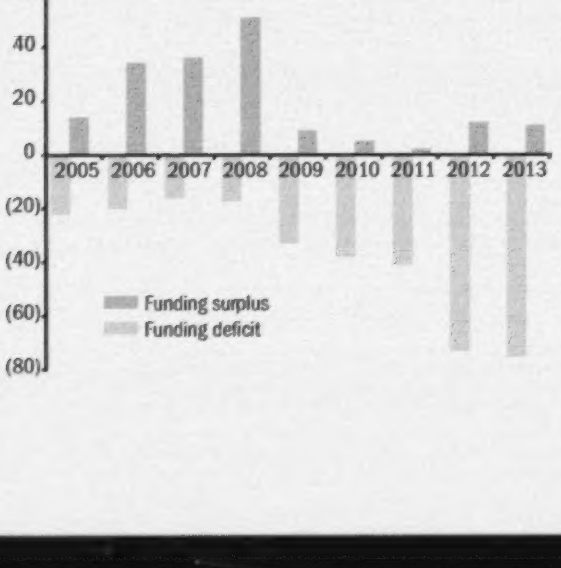
Source of data: Financial Services Commission of Ontario



* Excludes individual, closed and frozen defined benefit pension plans. Frozen plans are those where members are no longer accruing future benefits.

Figure 4: Total Amount of Funding Surplus and Funding Deficit for All Active Defined-benefit Plans, years ending December 31, 2005–2013, ($ billion)

Source of data: Financial Services Commission of Ontario



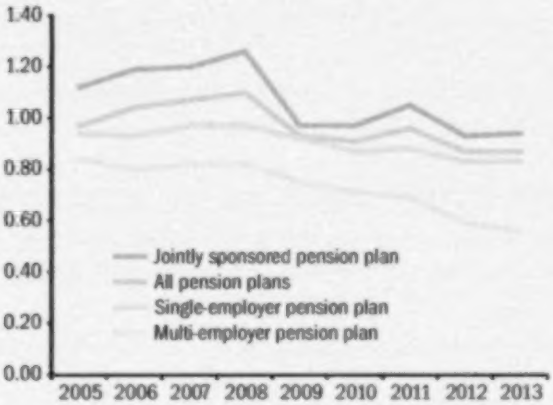
10 years, subject to the consent of the pension plan's members. In total, 215 pension plans elected 2012 solvency relief; of these, 134 had also elected solvency relief in the previous round.

Sustainability of the Pension Benefits Guarantee Fund

The Pension Benefits Guarantee Fund (PBGF) was initially intended to be self-financing through annual assessment fees charged to eligible single-employer defined-benefit pension plans. While the PBGF is seemingly in a better financial position now than it was before the 2008 economic downturn as a result of changes since made by

Figure 5: Weighted Average Solvency Ratio of Active Defined Benefit Pension Plans, for the years ended December 31, 2005–2013*

Source of data: Financial Services Commission of Ontario



* FSCO uses a solvency ratio to express the extent a defined-benefit pension plan is funded. For instance: a plan that is fully funded is represented by 1.00; a plan in deficit and funded at only 85% is represented by 0.85; and a plan with a funding surplus of 20% is represented by 1.20.

the government (discussed later), its financial risk exposure has actually increased significantly. In March 2014, the PBGF had a $375-million surplus to cover any claims, up from a $102-million deficit in March 2008. However, as **Figure 6** shows, in 2008 there was a cumulative $6.6-billion solvency deficiency for 2,258 pension plans covered by the PBGF; as of March 31, 2014, this cumulative solvency deficiency had increased by more than 400%, to almost $28.9 billion, covering only 1,834 plans, 19% fewer than in 2008.

Under the *Pension Benefits Act*, the PBGF liability to pay claims related to insolvent pension plans is limited to only the assets of the fund. The Ministry of Finance may, at the government's discretion, make a grant or a loan to the PBGF to help it meet any shortfall, although the Act does not require it to do so. **Figure 7** shows government loans and a grant to the PBGF since March 31, 2004, to help it cover large corporate pension plans that were no longer viable. Since its inception in 1980, the PBGF has required loans and a grant from the Ontario government totalling $855 million to cover all eligible claims. In addition, the government has provided financial support directly to large corporations experiencing financial difficulties that involved pension plans with large solvency deficiencies.

The PBGF has paid $1.4 billion for 242 claims since its inception and as of March 31, 2014, it had outstanding loans payable to the province of $220 million. Of the $1.4 billion in claims, 54% ($759 million) was for the pension plans of two companies: $375 million to the then-Algoma Steel in 2004/05, and $384 million to Nortel in 2011/12. Excluding these two claims, the average for the remaining 240 claims was about $2.7 million each.

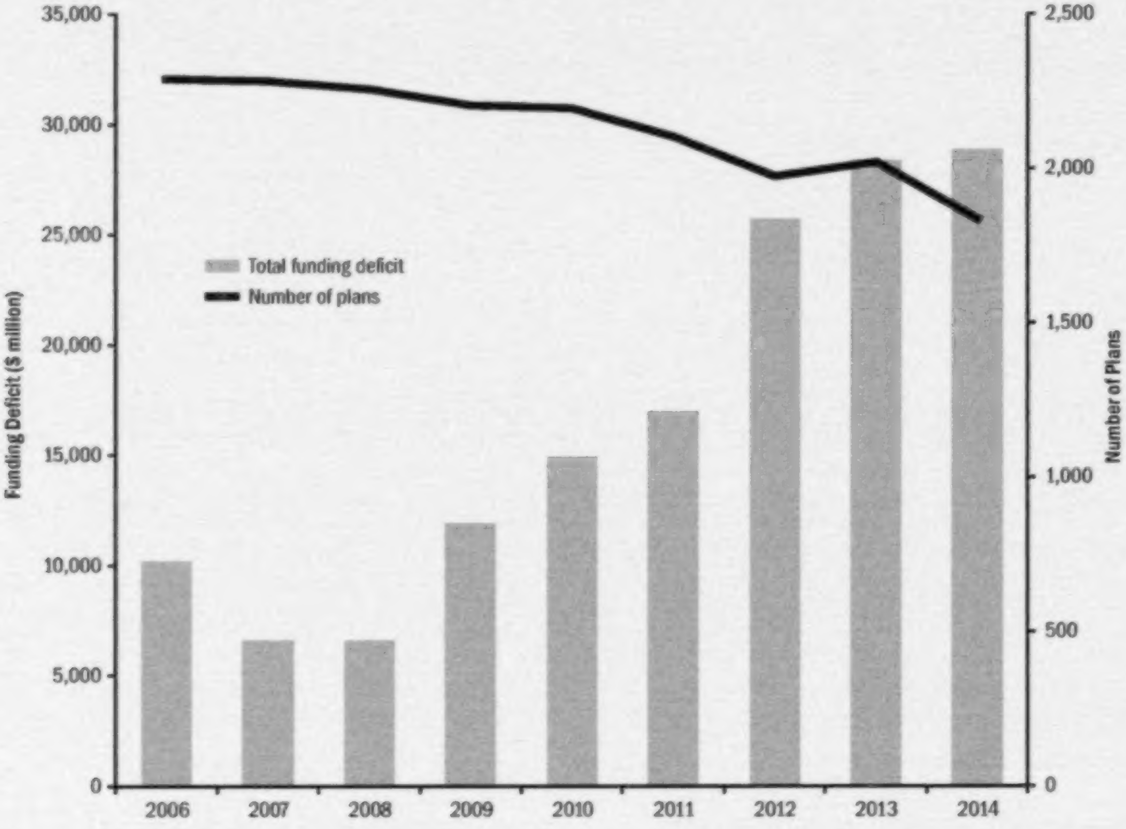
As of August 31, 2014, there were 15 employers who each sponsored pension plans with solvency deficiencies greater than $200 million and solvency ratios ranging from 0.69 to 0.93, that were covered by the PBGF. Should any of these plans be required to wind up, the negative impact would be substantial on thousands of plan members and the PBGF. In addition, there were 25 single-employer, multi-employer and jointly sponsored pension plans that each had a solvency deficiency greater than $200 million, and solvency ratios ranging from 0.53 to 0.94, that were not covered by the PBGF and that would have a substantial impact on thousands of members should their plans be required to wind up.

There have been several studies since 2008 that have questioned the sustainability of the PBGF:

- The report of Ontario's 2008 Expert Commission on Pensions (the Arthurs Report), questioned the continuation of the PBGF, recommending that "[t]he Ministry of Finance or some other agency, either alone or in co-operation with other Canadian pension authorities, should initiate a study of possible alternatives to the Pension Benefits Guarantee Fund. ...On the basis of the findings of that review, the government should determine whether to continue, amend, replace or discontinue the PBGF."
- Based on a recommendation made in the Expert Commission on Pensions report, the Ministry of Finance commissioned a study by an independent consultant in 2010 to

Figure 6: Number of Pension Plans and Total Funding Deficit of All Plans Covered by the PBGF, for the years ending March 31, 2006–2014

Source of data: Financial Services Commission of Ontario



evaluate the sustainability of the PBGF. The study concluded that "currently, the PBGF has insufficient funds to cover the anticipated 2010 claims. If continued, the PBGF will either need to build up reserves and/or secure future external funding to cover future catastrophic claims. The amount of reserves or funding required will depend on future assessment levels and the desired degree of confidence with which future claims will be covered by assessments."

Effective January 1, 2012, changes to the Pension Benefits Act were made to increase PBGF revenues. Annual assessments were increased, with the base fee per Ontario plan member raised to $5 from $1; the maximum fee per Ontario plan beneficiary in unfunded pension plans was raised to $300 from $100; the $4 million assessment cap for unfunded pension plans was eliminated; and a minimum assessment fee of $250 was established for all defined-benefit pension plans. As shown in **Figure 7**, the annual assessment revenue increased almost $60 million in the fiscal year 2012/13 following these changes.

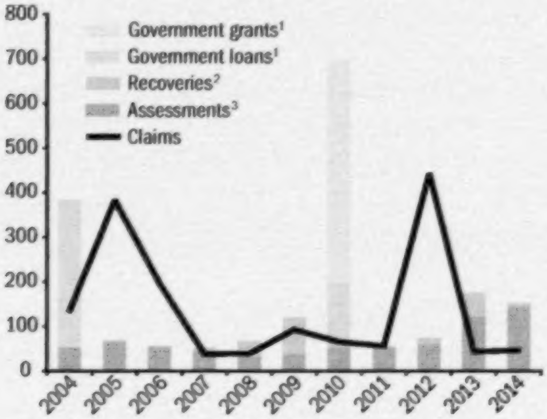
In addition, changes were made to the *Pension Benefits Act* to reduce future claims costs for pension plans with a wind-up date on or after December 8, 2010. For instance, the exclusion period changed from three years to five years before a new pension plan qualified for coverage by the PBGF.

- The February 2012 Commission on the Reform of Ontario's Public Services (the Drummond Report) also questioned the continuation of the PBGF. The Drummond Report found "[t]he Fund is no longer sustainable in its current form as it presents a large fiscal risk for the province in the event of another economic downturn," and recommended that "the province either terminate the [PBGF] or explore the possibility of transferring it to a private insurer."

- A March 2012 report by the Fraser Institute observed that "Although Ontario is the only Canadian province with a fund guaranteeing private sector defined-benefit pension plans, the problems it is experiencing are similar to those of comparable funds in other jurisdictions, including the United States and United Kingdom."

Figure 7: PBGF Revenues and Claims, for the years ending March 31, 2004–2014 ($ million)

Source of data: Financial Services Commission of Ontario



1. A non-interest bearing loan of $330 million was received from the Government of Ontario on March 31, 2004 to assist the PBGF in meeting claims related to the wind-up of two Algoma Steel pension plans. Between May 2003 and May 2004, the PBGF paid claims of $460 million related to Algoma Steel pension plans. (In 2007–2011, the PBGF recovered $85 million, resulting in a net claim of $375 million relating to Algoma Steel.) Interest-bearing loans totalling $130 million were received from the Government of Ontario in August 2009 and January 2010 to support the PBGF for claims due to the 2008 economic downturn. A $500-million grant was received in March 2010 from the Government of Ontario to pay off the $130 million in loans received in 2009 and 2010 and to support the PBGF in meeting claims relating to Nortel pension plans.
2. PBGF claims are paid to pension plans based on the submission of an interim windup report. Pension plans submit a final windup report once the pension plan has completed payouts to all members. Funds that are remitted back to the PBGF for the overpayment of claims are called recoveries.
3. The assessments paid by pension plans increased effective January 1, 2012, increasing revenues by almost $60 million from 2012 to 2013.

The Fraser Institute report noted that the U.S. Pension Benefit Guarantee Corp. operated at a $27-billion deficit in 2011, its largest deficit since its inception in 1974. The UK's Pension Protection Fund acknowledged in 2010 that it did not have sufficient financial resources to pay existing levels of compensation and would not be fully funded until at least 2030.

RECOMMENDATION 1

In view of the significant increasing underfunding of defined-benefit pension plans in Ontario, the Financial Services Commission of Ontario should conduct an analysis of the reasons for this increase, the potential for plans to recover based on a variety of predictions of economic growth in the province over the next several years, and the financial exposure to the province should the underfunding situation not improve in the next few years.

It should use this information to identify and recommend strategies and changes to the legislation that could help to inform and mitigate the financial risk to sponsors and members of pension plans, as well as to legislators and taxpayers.

FSCO RESPONSE

FSCO agrees that it may be useful to conduct additional analysis and to make this information available to the government should it wish to use it in developing pension policy. FSCO would continue to co-operate fully and respond to requests from the government for advice on pension funding issues. It should be noted that under the *Pension Benefits Act* there is no direct financial risk to the province from underfunded pension plans apart from as a sponsor of the Public Service Pension Plan and co-sponsor of the Ontario Teachers' Pension Plan and the OPSEU Pension Plan.

FSCO monitors emerging trends relating to the health of pension plans in Ontario. For example, in 2014 it published its tenth annual

Report on the Funding of Defined Benefit Pension Plans in Ontario. This report provides relevant information on the current status and the trends relating to, for example, the funded status of pension plans, the use of funding relief provisions and their impact, and the investment of pension funds. On a quarterly basis, FSCO also estimates and analyzes the solvency status of pension plans.

RECOMMENDATION 2

The Financial Services Commission of Ontario should assess the Pension Benefits Guarantee Fund's (PBGF) financial risk exposure to potential claims and its continuation as an insurer of single-employer defined-benefit pension plans, and it should use this information to recommend further possible changes to the *Pensions Benefits Act* and regulations to address the sustainability of the PBGF.

FSCO RESPONSE

FSCO monitors the PBGF on a regular basis by producing reports that estimate current PBGF inflows and outflows. Moreover, FSCO estimates potential claims by monitoring the status of pension plans of companies that are under financial distress, including those under *Companies' Creditors Arrangement Act* (CCAA) proceedings and receivership. FSCO will seek ways to enhance its analysis of the PBGF financial exposure and to make available its analysis to the government should it wish to use it in developing pension policy.

Limited Powers of the Superintendent

FSCO's responsibility regarding pension plans is to ensure members' future benefits are secure. Its activities include:

- registering new pension plans and pension plan amendments;
- processing required filings from plan administrators, including annual information returns, actuarial valuation filings, investment information returns, and financial statements;
- monitoring pension plans and pension funds to ensure they are being administered, invested and funded in compliance with the *Pension Benefits Act*;
- issuing Superintendent Orders, such as for the involuntary wind-up of a pension plan due to the insolvency of a plan or employer; and
- responding to inquiries and complaints from pension plan members, investigating alleged breaches of the *Pension Benefits Act* and taking enforcement action when required.

Each pension plan must have a plan administrator, who may also be the employer sponsor, and is responsible for statutory funding contributions; administration and payment of benefits to members; managing the investment of plan assets in compliance with relevant laws; annual reporting to members; and responding to member inquiries. Plan administrators may delegate some or all of these responsibilities to third-party service providers such as actuaries, accountants, lawyers, pension plan consultants, investment managers, trust companies and benefits administration companies. The pension funds are held in trust accounts maintained by trust or insurance companies appointed by the plan administrator. The plan administrator has no access to funds held in trust accounts, although the plan administrator may make investment decisions involving the funds.

We noted the Superintendent has limited powers under the *Pension Benefits Act* to take action against plan administrators of severely underfunded pension plans and plans not being administered in compliance with the Act, short of prosecution or ordering the wind-up of a plan.

Powers to Appoint a Plan Administrator

FSCO prepares a monthly internal solvency watch-list report that lists all defined-benefit pension plans with solvency concerns (generally when the ratio of pension assets to liabilities is at less than 85% based on the most recent actuarial valuation report filed by each plan administrator). **Figure 8** shows that as of December 31, 2013, the solvency watch list included 696 pension plans with solvency concerns representing 1.8 million active and retired members, with the amount of the underfunding totalling approximately $65 billion. About 45% of these plans had solvency ratios that had deteriorated to less than 0.70.

When a pension plan is not being administered in compliance with the Act—for example, required documents have not been filed with FSCO, required contributions have not been made, or federal investment rules are not being met—the Superintendent can issue an order directing the plan administrator to take specific actions for the plan to comply with the Act. If the plan administrator does not comply with the order, the Superintendent can initiate prosecution against the plan administrator under the *Provincial Offences Act*.

The Superintendent has no power to appoint a new administrator to a pension plan, even when the plan administrator has not met its obligations, unless the plan is being wound up. A plan can be wound up by order of the Superintendent under the following circumstances: the employer stops making required pension plan contributions, including additional payments to cover solvency deficiency; the employer becomes bankrupt; a significant number of pension plan members' employment is terminated; closure or sale of the employer's business; or the liability of the PBGF is likely to substantially increase if the pension plan is allowed to continue operating.

In comparison, the federal Office of the Superintendent of Financial Institutions (OSFI) has a number of discretionary powers to address specific pension plan solvency issues. The objective is to intervene as early as possible to minimize problems before they escalate and to reduce the risk of loss to pension plan members.

OSFI has developed a five-stage rating system that determines the level of intervention required, as follows:

- *Stage Zero: No significant problems.* Ongoing monitoring of the plan continues.
- *Stage One: Early warning.* Deficiencies in the plan's financial position are identified and it could be placed on a watch list. OSFI increases monitoring of the plan and may require additional relevant filings.
- *Stage Two: Risk to solvency.* OSFI intensifies its supervisory interventions, requiring that the administrator take actions such as submitting a revised or early actuarial report or holding meetings with plan members.
- *Stage Three: Future solvency in serious doubt.* OSFI escalates its intervention because of immediate threats to plan members' benefits. OSFI can remove the plan administrator and appoint a replacement; designate an actuary to prepare a report for funding purposes;

Figure 8: Funding Deficits of Pension Plans on FSCO's Solvency Watch List, as of December 31, 2013

Source of data: Financial Services Commission of Ontario

Solvency Ratio	# of Plans	Active Members	Retired and Other Members	Total Members	Plan Assets ($ million)	Liability to Members ($ million)	Funding Deficit ($ million)
<0.40*	5	153,755	240,569	394,324	1,810	5,264	**(3,454)**
>= 0.40 <0.55	26	99,957	122,652	222,609	7,998	16,415	**(8,417)**
>= 0.55 <0.70	281	166,155	187,822	353,977	26,087	39,973	**(13,886)**
>= 0.70 <0.85	384	457,029	412,917	869,946	126,940	166,412	**(39,472)**
Total	**696**	**876,896**	**963,960**	**1,840,856**	**162,835**	**228,064**	**(65,229)**

* One plan with a solvency ratio of 0.34 accounts for the majority of this category. FSCO has prosecuted the plan administrator and also entered into two negotiated agreements to reduce the funding deficit.

bring action against the administrator; or terminate the plan.

- *Stage Four: Permanent insolvency.* OSFI facilitates the wind-up of the plan.

In December 2010, an amendment to the *Pension Benefits Act* was passed that would authorize the Superintendent to terminate a plan administrator and either appoint a new one or allow the Superintendent to act as the plan administrator. However, the amendment still requires proclamation by the Lieutenant Governor for this new power to come into force, and for the government to establish a regulation that prescribes the circumstances when the Superintendent can terminate a plan administrator. No date has been set for when these preconditions will be met.

More Frequent Actuarial Valuations and Review of Valuations of Defined-benefit Pension Plans Needed to Assess Funding Status

Periodic actuarial valuations determine whether a plan has sufficient assets to fund its expected pension liability obligations to its members. Valuation of a pension plan's assets and liabilities can change significantly from year to year, since growth in pension assets depends on investment returns, interest rates, and the extent of benefit payments to retirees, who are generally living longer.

During the 2008 economic downturn, pension assets invested in equity markets dropped in value by as much as 35% in a matter of weeks. As well, the extended period of low interest rates since the downturn has further reduced investment returns well below what they have been historically and increased pension liabilities. Allowing a long time between actuarial valuation reports poses risks to pension plan members and to FSCO's monitoring of whether plans have solvency deficiencies.

Under the *Pensions Benefits Act*, plan administrators of defined-benefit plans must file actuarial valuation reports every three years (triennial valuations) if their plan does not have a solvency concern, such as when the solvency ratio is 0.85 or higher, or annually if the solvency ratio is lower. FSCO does not have the power to order an interim actuarial valuation of a pension plan. As of December 31, 2013, there were 816 defined-benefit plans, or 60% of all active plans with solvency concerns, that were required to file actuarial valuation reports annually.

Federal pension legislation requires more frequent filing of actuarial valuation reports. Plans funded at less than 120%—a significantly higher threshold than the 85% in Ontario—are required to file every year, as opposed to every three years. This allows for more accurate and timely reporting on the funding status of pension plans. If Ontario were to require actuarial valuation reports using a funding level of 120%, all but 33 active defined-benefit pension plans would be required to file annually as of December 31, 2013.

Up until the fall of 2011, FSCO carried out reviews of approximately 30% of actuarial reports received each year to ensure plan provisions had been properly reflected and that data, methods and assumptions used to determine the financial positions and sponsor contribution requirements of the plan met FSCO's expectations. For instance, actuaries can use their judgment for assumptions in predicting long-term mortality and interest rates. Over the past five years, FSCO received approximately 1,700 actuarial valuation reports annually. However, FSCO now carries out detailed reviews of only a small number of actuarial reports each year on a sample basis. FSCO no longer formally tracks the number of reviews it performs every year, and does not report internally or externally the results of these reviews. In contrast, we noted that the federal OSFI publicly reports the number of detailed actuarial valuation reviews completed yearly, as well as their observations from the reviews. By communicating this information, OSFI helps educate plan sponsors and actuaries on addressing these findings before they submit their reports for review.

Non-compliance with Statutory Filing Requirements by Pension Plans

The *Pension Benefits Act* requires pension plan administrators to regularly file with FSCO key information on the plan, including its funding status, sponsor contributions, investment returns and activities, and member pension obligations. **Figure 9** provides a description of the required filings and their due dates.

To effectively monitor pension plans, FSCO must ensure it receives statutory filings on a timely basis, or take action when they are not received. **Figure 10** shows that as of May 2014, 1,384 pension plan administrators had not submitted one or more statutory filings on their due dates and were past due for over one year. FSCO had taken action on only 13% of these cases, or 176 plans, and the action taken was limited to sending a letter to the plan administrator requesting compliance with filing requirements. No action was taken on 1,208 plans, including 127 plans that had pension assets of more than $1 million.

FSCO levies no penalties on administrators who file persistently late. FSCO told us it has taken legal action against plan administrators only twice—after the plans fell years behind in filings—and the courts imposed fines in these cases. However, FSCO's efforts to prosecute these administrators were labour-intensive and costly.

FSCO has had the power to impose administrative monetary penalties (AMPs) in the mortgage sector since 2008, but not on pension plan administrators. In 2013/14, there was a 95% compliance rate by mortgage brokers for submitting statutory filings. FSCO has been authorized to issue AMPs in the insurance sector since 2013, and recommended in 2010 to the Ministry of Finance that it be granted the authority to issue AMPs in the pension sector. However, no action has so far been taken by the Ministry of Finance to propose the necessary changes to the *Pension Benefits Act*.

Figure 9: FSCO Filing Requirements by Pension Plan Administrators, as of March 31, 2014*

Source of data: Financial Services Commission of Ontario

Name of Filing	Frequency Filed	Type of Pension Plans that File	Description
Annual information return	Annually	All plans	Contains general information on the pension plan including the name of the plan sponsor, plan administrator and details on the number and status (active, retired) of members.
Investment information summary	Annually	Defined benefit	Provides details on the change in asset values year-over-year including the asset mix of investment assets
Actuarial funding valuation report and actuarial information summary	Normally filed triennially; however filed annually for plans with a solvency ratio below 0.85 on their most recently filed actuarial funding valuation report	Defined benefit	The valuation report is prepared by an accredited actuary in accordance with the Canadian Institute of Actuaries Standards of Practice, and identifies the main assumptions used and determines the plan's solvency ratio, which is the surplus or deficit of pension assets to the predicted liability for future retirement benefits. The information summary details the overall plan assets and liabilities, solvency ratio and the amount of any additional payments that the plan sponsor needs to make into the pension plan.
Pension fund financial statement	Annually	All plans	The financial statements of the pension plan. All pension plans with more than $3 million in assets must file audited financial statements.
Pension Benefits Guarantee Fund (PBGF) assessment certificate	Annually	Defined benefit	Calculates the fee that a pension plan needs to pay into the PBGF based on the size of the pension plan's funding deficit and number of members in the pension plan.

* Filings are in accordance with the requirements of the *Pension Benefits Act* and regulations.

Figure 10: Number of Delinquent Pension Plan Administrators that Have Not Submitted a Required Filing for Over One Year, as of May 2014

Source of data: Financial Services Commission of Ontario

	No Action Taken by FSCO	Minimal Action Taken by FSCO[1]	Total
Annual information return	127	**39**	**166**
Investment information summary	14	**7**	**21**
Actuarial funding valuation report and Actuarial information summary	40	**29**	**69**
Financial statements	1,014	**98**	**1,112**
PBGF assessment certificate	13	**3**	**16**
Total	**1,208**	**176**	**1,384**[2]

1. FSCO sent follow up letters to the plan sponsor.
2. 188 pension plans included in these totals have been counted twice since they had more than one filing overdue. As a result, 1,196 pension plan administrators had at least one filing overdue for over one year. In addition, 938 of 1,384 pension plans, or 68% of the total, are defined contribution plans.

RECOMMENDATION 3

To ensure the Superintendent has sufficient powers, authority and information to effectively monitor the administration and solvency of pension plans, the Financial Services Commission of Ontario should make changes to its policies and procedures, and, where necessary, seek changes to the *Pension Benefits Act*, to:

- provide it with similar powers to that of the federal Office of the Superintendent of Financial Institutions, including powers to terminate, appoint and act as a plan's administrator;
- establish a staged approach for earlier monitoring and supervision of pension plans that have solvency deficiencies;
- increase the Superintendent's power to order a plan administrator to provide an actuarial valuation report, particularly when a plan has a solvency deficiency, and introduce a program that regularly assesses the reasonableness of assumptions used in these reports; and
- take more proactive follow-up action against plan administrators that do not submit statutory filings on time, and acquire powers to impose penalties for late filing.

FSCO RESPONSE

FSCO will undertake to provide advice to the government to identify those circumstances that would require the Superintendent to terminate an administrator or appoint or act as an administrator in an ongoing plan.

FSCO agrees with this recommendation. FSCO has undertaken the development and implementation of a risk-based regulation framework that will provide for identification of pension plans which may be at risk and provide for a more intensive escalating staged-level of monitoring and supervision of those plans.

Legislative changes that would broaden the Superintendent's power to order actuarial valuation reports to be prepared and to order changes in actuarial assumptions are awaiting the development of supporting regulations. FSCO continues to look for ways to further enhance its program for assessing the reasonableness of actuarial assumptions.

FSCO's introduction of mandatory electronic filing in 2013 and the implementation of the Pension Oversight Unit has resulted in a significant decrease in the number of late filings and removal of the backlog of outstanding late filings. FSCO agrees that the introduction of administrative monetary penalties (AMPs) would be an effective tool. FSCO has legislative authority to use AMPs in other sectors it regulates and will provide advice to the government to identify those circumstances where AMPs would be an effective regulatory tool.

Examination of Plans

More Frequent and Thorough Examinations and Enforcement Action Needed

The *Pension Benefits Act* gives FSCO the power to conduct examinations of and inquiries into pension plans. However, we noted that there were few examinations compared to the number of pension plans it regulates, and the examinations did not result in enforcement action. In addition, FSCO had no authority to request financial information, such as a corporation's financial statements, from an employer that sponsors a pension plan that would allow it to assess the financial health of the employer to determine if contributions to the plan were at risk before bankruptcy occurs.

FSCO conducted 50 pension plan examinations annually in each of the last three fiscal years. Examinations focused on the plan administrators' governance, administration, funding and investment practices.

The vast majority of plans selected for examination were defined-benefit and hybrid plans, and only 14 defined-contribution plans were examined during this period. At this rate, we calculated it would take FSCO well over 100 years to examine the more than 7,300 plans it regulates, and about 14 years if it just limited its examinations to all plans on its solvency watch list. For instance, only 11% of the plans on the solvency watch list as of December 31, 2013, had been examined over the previous three fiscal years.

FSCO's investment, actuarial and technical consulting units chose the plans to examine. Plans were chosen mainly because they had a record of investment concerns or late filings. In 2012, FSCO began implementing a new risk-based regulation of pension plans in Ontario, although this had not been finalized as of September 2014. The proposed framework aims to improve FSCO's overall effectiveness in monitoring key pension risks and take appropriate regulatory actions to address these risks to protect the plan beneficiaries. As part of this, FSCO is developing a new selection approach and assessment process to identify high-risk pension plans for in-depth monitoring focused on five risk areas: funding, investment, administration, governance and sponsor/industry.

The plan administrator is responsible for ensuring that pension contributions are invested in accordance with the *Pension Benefits Act*, which requires compliance with the federal investment rules contained in the *Pension Benefits Standards Act*. For example, the pension plan may not invest more than 10% of its assets in any individual investment and cannot own more than a 30% interest in any one investment unless certain undertakings are filed by the plan administrator with FSCO. The rules also require that pension plan administrators develop a written Statement of Investment Policies and Procedures (SIPP), which is typically approved by the board of directors of the plan, and the SIPP is to be reviewed annually. The SIPP requires an appropriate asset mix, rate of return expectations, level of diversification and risk tolerance for the plan.

Starting in 2006, the *Pension Benefits Act* required defined-benefit pension plan administrators to provide a yearly Investment Information Summary, outlining current asset mix, investment performance, and total administrative and investment fees paid by the plan. The plan administrator is also required to attest to the plan's compliance with federal investment rules in the Summary. The intent of the Summary is to allow FSCO to identify irregularities or significant breaches of federal investment rules, unusual investment performance or unsuitable investment mixes. However, plan administrators are not required to include in the Summary a detailed listing of their investments, and financial statements filed by plan administrators provide some, but not all, information needed for FSCO to ensure compliance with federal investment rules without initiating a full on-site examination. Given the findings of FSCO's limited examinations, such reporting may be warranted, at least for riskier pension plans.

FSCO conducts both on-site plan examinations and reviews of annual filings. We noted the on-site plan examinations commonly identified weaknesses in investment practices. For example, there were cases where no SIPP was in place, the SIPP had not been reviewed for several years and/or the SIPP had not been updated by the administrator to reflect current investment practices. FSCO had not taken any enforcement action against any plan sponsor based on the examination results, even though the plan administrators had provided an attestation in their Investment Information Summary that they complied with federal investment rules.

FSCO's on-site review of investments during examinations was generally limited to reviewing plan policies, and we noted that there was no sampling of individual investments in plans to test for their compliance with federal investment rules. As an example of why FSCO should examine investments, FSCO initiated legal action after having identified during a voluntary wind-up of a pension plan (unrelated to an on-site examination) that a plan administrator and an investment manager violated federal investment rules, resulting in a $1.6-million loss from inappropriate investments.

In addition, we noted that FSCO does not provide guidelines to auditors of pension plan financial statements to set out minimum expectations auditors should follow to ensure plan administrators complied with certain key requirements in the *Pension Benefits Act*. For instance, guidelines to auditors could clarify FSCO's expectations for ensuring that plan administrators exercise the care, diligence and skill in the administration and investment of the pension fund that, as per the Act, "a person of ordinary prudence would exercise in dealing with the property of another person;" the administrator is paid reasonable fees and expenses; and that plan assets were invested prudently and in accordance with federal investment rules for defined-benefit pension plans. In this way, FSCO could rely on auditors to cover key risk areas, and allow FSCO to focus its limited resources on examining other priority risk areas.

In the majority of FSCO-ordered plan wind-ups, the plan failed because the employer went bankrupt. To assess the risk that an employer is financially stable and capable of meeting its pension contribution payments, FSCO needs access to employer records and financial statements. However, the *Pension Benefits Act* limits FSCO's authority only to accessing records of the pension plan. As a result, FSCO would not know when an employer is in financial difficulty until it stops meeting its pension contribution payments, which is often when the employer is bankrupt.

Weak Monitoring of Investments of Defined-contribution Plans

While the financial risks associated with administering a defined-contribution plan are far less and significantly different than for a defined-benefit pension plan, primarily because the amount of pension liability is limited to the assets available in a defined-contribution plan, we noted that FSCO does very little to monitor whether defined-contribution pension plans are administered in accordance with the requirements of the *Pension Benefits Act* and the interests of plan members. Defined-contribution pension plan members decide how their pension contributions are to be invested by the plan administrator. The plan administrator usually offers a variety of investment options and information to educate members about each investment option. Members select investment options that best suit their investment goals. Thus, the members, rather than the plan sponsor, bear the investment risk.

As noted earlier in this report, a plan administrator of a defined-benefit pension plan must submit an annual Investment Information Summary; however, FSCO does not require such a report for defined-contribution pension plans. Plan administrators are required to report an annual information return that states only the market value of assets at the beginning and end of the reporting period and net investment income or loss. As at December 31, 2013, the market value of total assets reported on the annual information returns was $19.2 billion for 3,073 defined-contribution pension plans.

Plan administrators of defined-contribution plans are not required to report on expenses related to managing investments, administrative expenses and overall plan expenses or the asset mix of the plan. As well, no certification is required from plan administrators that all investments were made in accordance with the members' investment selections.

The notes to financial statements for defined-contribution plans contain information on types of investments in the plan. However, as noted earlier, FSCO did not follow-up with plan administrators for non-filing of financial statements, which were predominately from 800 defined-contribution pension plans. Moreover, FSCO generally did not review the financial statements of defined-contribution pension plans.

We also noted that during the 14 examinations of defined-contribution plans that FSCO conducted over the last three fiscal years, it did not assess the investments in detail or whether the plan invested the assets in accordance with options selected by members.

RECOMMENDATION 4

To ensure examinations of pension plans conducted by the Financial Services Commission of Ontario (FSCO) provide an effective level of assurance that plan administrators are operating in accordance with statutory requirements, FSCO should:

- conduct more plan examinations and select plans for examination based on risks to members of the plan;
- ensure that its procedures for examining plans effectively address the risks associated with investments managed by plan administrators;
- provide guidelines to auditors of pension plan financial statements that set out minimum expectations for ensuring compliance with key requirements of the *Pension Benefits Act* as part of these audits;
- ensure it has the necessary employer information to identify plans at risk before employers launch bankruptcy proceedings; and
- establish an examination program for defined-contribution plans that provides effective monitoring and protection to plan members.

FSCO RESPONSE

FSCO's pension examination process has been one of continuous improvement and the scope of the examinations continues to be broadened. For example, in addition to increased compliance checks, assessment of plan governance has now become a significant part of an examination.

As part of its continuous improvement for examinations, FSCO will review and consider these recommendations when it incorporates the examination process into the risk-based regulation framework in order to provide a more holistic approach for selecting plans for examinations. The review will also consider the appropriate frequency of examinations of plans and the implication on FSCO's resources. FSCO will undertake to provide advice to the government to identify if any legislative changes would be required to incorporate these recommendations.

FSCO will consider providing guidance to auditors of pension plan financial statements.

Enhanced Disclosure to Members on Plan Performance

While pension plan members receive information on their expected benefits, there is room for improvement in the information provided on their plans' performance and expenses, including information that would help members assess how their plan performed compared to other similar plans.

Pension plan administrators are required by the *Pension Benefits Act* to provide plan members with an annual pension statement that includes member-specific information on their benefits and contributions. For instance, defined-contribution pension plan administrators must disclose the total of employee and employer contributions to the member's pension, and the investment income on these funds. Defined-benefit pension plans must state the annual pension amount payable at the plan member's normal retirement date, and whether the plan is covered by the PBGF. Effective January 1, 2012, the annual statement of defined-benefit plan members must also include the most recent transfer ratio (similar to the solvency ratio) of the plan, an explanation of the transfer ratio and how it relates to the funding level of members' benefits, and, where applicable, a statement that additional payments are being made to eliminate underfunding of the plan.

While there is no requirement for plan administrators to provide an annual report and financial statements to members, some plans do so voluntarily. Upon request to either the plan administrator or FSCO, members can receive all information returns that the plan administrator provides to FSCO, such as annual financial statements, investment information returns and actuarial valuation reports.

The federal *Pension Benefits Standards Act* contains member disclosure requirements similar to Ontario's. However, the federal Office of the Superintendent of Financial Institutions provides additional disclosure guidance to pension plan administrators to ensure that members receive appropriate information on their plans. For example, OSFI recommends that administrators disclose to their members a plan's portfolio management strategies, investment performance in relation to performance goals, comparison of investment performance with relevant benchmarks, any illiquid assets held by the plan, and significant expenses incurred by the plan, with a comparison to the previous year.

Ontario's disclosure rules are such that the annual pension statement provided to members offers little information on how judiciously their plan's assets are being managed. This makes it difficult and onerous for a member to assess the performance of the plan administrator. For instance, members could find it useful to receive information on plan administrative and investment expenses, including the performance of their plan's expenses and investments compared to other similar pension plans, along with benchmark indices for the types of investments held.

As well, the *Pension Benefits Act* requires that pension plans submit annual financial statements to FSCO, but not to plan members. Financial statements, along with annual reports on the plan's performance, would help members to better evaluate the financial position of their pension plan.

In addition, plans must supply annual pension statements to active pension plan members (those still working for the employer), but not to those who are retired and collecting pensions or to former members (those who have left the employer as a result of termination or voluntary departure, but still retain entitlements under the pension plan). In May 2010, legislation was passed that amended the *Pension Benefits Act* to require plan administrators to provide former and retired members with annual statements; however, this amendment still requires proclamation by the Lieutenant Governor and no date for this has been set.

Public Reporting of Pension Plan Performance and Regulatory Oversight Could Be Enhanced

FSCO currently reports information to the public about pension plans as part of its annual report. Most of the information is statistical, such as pension plan membership, number and types of pension plans, the number of plan registrations and the number of wind-ups. FSCO also issues an annual defined-benefit funding report, which contains only summary information on the overall pension plan solvency position in Ontario. No detailed financial information on individual pension plans is reported. In our view, plan members would not find the current report useful for assessing how FSCO protects their interests and how well their plan performed and was administered in comparison to other plans and benchmarks.

FSCO does not make public its solvency watch list, even in summary form. FSCO senior management told us that because the *Pension Benefits Act* does not explicitly state that names and details of pension plans with solvency deficiencies should be reported publicly, it has not made a practice of doing so. FSCO also told us it has concerns about releasing third-party confidential information that may be subject to the *Freedom of Information and Protection of Privacy Act*. Thus, members of pension plans and the public at large would not necessarily be aware of solvency issues.

We noted in particular two other jurisdictions—the Australian Prudential Regulation Authority (APRA) and the Pensions Regulator in the United Kingdom—that provided much more information annually to the public on their regulatory activities and the management and performance of pension plans.

The Pensions Regulator releases an annual survey on the governance of pension plans with a focus on the composition and activities of the boards of trustees. APRA also releases annual details on the average composition of boards overseeing pension plans, including the average number of members on the board and percentage of female directors on the board.

APRA annually provides breakdowns on the overall assets and liabilities of pension plan categories (e.g., corporate or public sector), including what portion of assets came from investment income or gains and the amount of expenses related to administration and investing. The average rate of return and 10-year rate of return is provided for all pension plans in aggregate, as well as by pension plan category, and the actual one-, five- and 10-year rates of return are provided for each of the 200 largest pension plans on an annual basis. This reporting is similar to that required for mutual funds in Canada. For defined-contribution pension plans, both regulators provide reporting on the number of investment choices that are made available by pension plans for their members.

Both regulators publicly report on their stakeholders' perceptions of the regulator's overall performance and effectiveness based on surveys.

RECOMMENDATION 5

To ensure that pension plan members get more detailed disclosures about their pensions, and about the regulatory oversight performance of the Financial Services Commission of Ontario (FSCO), FSCO should:

- identify and seek to implement improvements to statutory annual disclosure requirements of a plan administrator that would provide more meaningful information to all members on the plan's performance and expenses, and how their plan performed compared to other similar plans and relevant benchmarks; and
- reassess its annual public reporting on pension plans in Ontario to provide more useful information for assessing how FSCO protects members' pension interests and how well their plan performed and was administered in comparison to other plans.

FSCO RESPONSE

FSCO agrees that more meaningful information to plan members on plan performance and expenses would be useful. In October 2014, the Ministry of Finance posted draft regulations for consultation with stakeholders on information to be provided to retired and former members.

FSCO will seek opportunities to provide additional information about its activities, including the findings arising from its on-site examinations, within its current resource constraints and ensure such disclosure would not violate privacy legislation requirements.

Financial Services

Weak Oversight of Co-operative Corporations that Raise Millions from Investors

The Licensing and Market Conduct Division (Division) is responsible for registering financial institutions in accordance with their respective legislations. While registration and oversight processes for credit unions, caisses populaires and loan and trust corporations were satisfactory, we concluded that FSCO had limited authority under the *Co-operative Corporations Act*, and its processes for registering and protecting investors of co-operative corporations (also referred to as co-ops) were not commensurate with the risks to investors and the significant amounts involved. As of March 31, 2014, 1,773 co-operative corporations were registered to operate in Ontario.

Co-ops are owned and controlled by their members and are incorporated under the *Co-operative Corporations Act*. Co-op members pool their resources to provide themselves with products, services, employment and housing at cost, and can sell shares to members of the general public, even though those people don't necessarily receive goods or services from the co-op. In 2009, the *Green Energy Act, 2009*, amended the *Co-operative Corporations Act* to allow for the creation of co-ops that generate and sell electricity from renewable energy sources. Renewable energy co-ops are exempt from the usual co-op requirement that they conduct at least half of their business with co-op members. Over the past two calendar years, 64 of the 116 co-ops registered by FSCO were in the renewable energy sector.

Under the *Co-operative Corporations Act*, all co-ops with more than 35 members and with plans to raise over $200,000 in funding must first file an offering statement with FSCO and get back from FSCO a statutory receipt approving the selling of shares or securities to existing or prospective members or shareholders. FSCO reviews offering statements to ensure full, true and plain disclosures are made, including risks to investors.

Over the previous three fiscal years ending March 31, 2014, FSCO issued a total of 57 receipts for offering statements filed by co-ops, totalling a maximum funding level of $371 million; 41 of these 57 offering statements allow the co-ops to raise more than $1 million, ranging from $1.2 million to $48.2 million.

We noted that FSCO has not allocated any resources to ensuring that co-ops present to potential investors only approved (receipted) offering statements by, for instance, listing all approved offering statements on their websites for the public to check. FSCO also does not conduct any ongoing monitoring of co-ops to ensure that funds are being invested in the projects outlined in the offering statements, nor does it conduct ongoing examinations of these co-ops to ensure they comply with the requirement of the *Co-operative Corporations Act*, including that FSCO approve offering statements.

In addition, FSCO does not require criminal background checks for the boards of directors or officers of new co-ops that seek to be registered, and prior to their issuing any offering statements.

We noted that FSCO's approving of offering statements replicates the similar role of the Ontario Securities Commission (OSC) for providing protection for investors under the *Securities Act*. However, under the *Co-operative Corporations Act*, investors do not have the protections that are available under the *Securities Act*, which include civil liability for directors, issuers and underwriters for misrepresentation in the prospectus; registration requirements for dealers, salespeople, underwriters or advisers selling securities of corporations; and stronger enforcement penalties. In addition, the OSC has the expertise, experience and capacity to review prospectuses filed in connection with public offerings. FSCO told us it consulted with the OSC in September 2011 to ensure the renewable energy co-ops' offering statement reviews under the *Co-operative Corporations Act* were conducted to similar standards used by the OSC for its prospectus reviews. FSCO has had to develop the expertise to review offering statements from co-ops because these reviews are entirely different from the reviews performed for the other FSCO-regulated sectors.

In accordance with the *Co-operative Corporations Act*, the Minister of Finance's Schedule of Required Fees allows FSCO to collect $50 per offering statement it reviews. We noted this fee is not commensurate with the work required by FSCO and generates total revenue of under $1,000 from the offering statement fees. In comparison, the OSC charges $3,750 for each prospectus filing review. FSCO receives a $500,000 annual allocation from the government, which subsidizes FSCO's activity in the co-op sector. Except for the early renewable energy offering statement reviews in 2010/11 when costs exceeded $1 million, the annual allocation along with the fees cover FSCO's actual costs.

RECOMMENDATION 6

To adequately protect members and investors of co-ops, the Financial Services Commission of Ontario (FSCO) should seek to have the necessary legislative authority under the *Co-operative Corporations Act* to allow it to ensure that:

- all board members have criminal checks before the co-op is registered and any offering statements are issued;
- all approved offering statements are listed on FSCO's website;
- it conduct ongoing monitoring of co-ops; and
- fees charged to co-ops to review offering statements are commensurate with FSCO costs.

In addition, FSCO should consult with the Ontario Securities Commission on the benefits of sharing or transferring the responsibility of reviewing offering statements.

FSCO RESPONSE

FSCO agrees with the Auditor General's view that members and investors of co-operative corporations should be protected. While some aspects of the recommendations could be acted upon immediately, some may require legislative amendments or further analysis. FSCO will work with the Ministry to identify and consider potential statutory amendments.

Several years ago, FSCO engaged in early exploratory staff discussions with the Ontario Securities Commission to understand the implications of potentially transferring the responsibility for reviewing co-operative offering statements. FSCO, in conjunction with the Ministry, will initiate further discussion with the OSC.

Licensing

FSCO licenses three types of insurance agents in Ontario. As of March 31, 2014, the active agents in each category were as follows:

- 40,522 life insurance agents who sell both life insurance and accident and sickness products;
- 6,716 general insurance agents who sell insurance products other than life insurance, such as auto insurance and commercial business insurance; and
- 975 insurance agents who sell individuals just accident and sickness products.

We noted that FSCO's online insurance agent licensing system did not ensure consumers were protected because it lacked key controls to ensure licences were not issued or renewed for agents that did not meet minimum requirements, including having the required errors and omissions insurance.

Weakness in the Online Licensing System for Insurance Agents

All life insurance agents are required under the *Insurance Act* to have errors and omissions insurance coverage to cover their clients who suffer financial losses as a result of negligence or fraudulent activity committed by the insurance agent. General and accident and sickness insurance agents are not required to have errors and omissions insurance coverage individually because they are sponsored by their insurance companies. The annual licensing fee is $150 and average yearly premium for errors and omissions insurance is $800. Agents apply to FSCO through an on-line licensing system. The applicant is required to report his or her errors and omissions policy number, name of the insurance provider and expiry date. Currently, the online licensing system and FSCO staff do not verify the errors and omissions insurance information.

All applicants are required to indicate whether they have any criminal convictions, regulatory complaints or have been disciplined by another financial services regulator, or if they have ever filed for bankruptcy. Applications with these circumstances are flagged for further investigation by FSCO staff to determine whether the agent is suitable to be licensed. For all new insurance agents, FSCO also conducts a criminal background check. For all non-flagged applications, the system automatically issues a licence within a day.

We noted the insurance agent licensing system had weak controls in the following areas:

- Life insurance agents who had missing or incomplete errors and omissions insurance information in the database, or who had expired policies, were still able to receive licence renewals or an initial licence. As of June 2014, over 1,700 active agents were noted in the database to have received licences even though their insurance was expired as of the issuing dates, including one agent who had entered a 2007 expiry date for the insurance policy. In all, as of August 2014, more than 9,500 active life insurance agents (23.5% of all active life insurance agents) had missing or incomplete insurance data in the database.
- According to the licensing system database, a significant number of active agents had declared they were disciplined by another financial services regulator, had declared bankruptcy or had criminal convictions. These agents' licences were renewed without their applications being investigated by FSCO staff as required, as discussed later in this report.

Licensed Insurance Agents Operating Without Required Errors and Omissions Insurance Coverage

FSCO does not verify the information in the insurance agents online licensing system database to ensure that all agents have accurately reported on whether they have errors and omissions insurance. We noted from our testing of complaints that several agents had operated for one to three years before they were identified as not having errors and omissions insurance. Instead, FSCO relies on insurance providers to notify it of any agents that have had their policies expire or cancelled. However, it is not mandatory for errors and omissions insurers to provide this information to FSCO and only some of the 150 errors and omissions insurance providers voluntarily do this. By comparison, FSCO has agreements with all errors and omissions insurance providers for the mortgage brokerage sector to notify it if a brokerage does not have insurance.

FSCO has contacted approximately 550 life insurance agents annually where insurance providers had reported to FSCO that the agents did not have errors and omissions insurance. However, we noted that it did not contact all agents who were reported to it as not having insurance. FSCO does not record the number of agents reported to it as not having insurance.

In addition, FSCO does not gather information from life insurance agents or their insurers on the number of claims filed by clients against agents and which of those claims were valid. This information would be useful for assessing the conduct of certain agents, and would also help the industry when it considers changes to the licensing process and whether regulatory changes are needed.

In contrast, FSCO requires the mortgage brokerage sector to provide this kind of information. Each brokerage must report to FSCO the errors and omissions claims against the firm and its brokers and agents that are paid by their insurance providers. Brokerages must provide brief explanations for any claims paid. In 2011, 24 brokerages received 38 errors and omissions claims, and 16 were paid out;

in 2012, 37 brokerages received 55 claims, and 11 were paid out; and in 2013, 37 brokerages received 56 claims and 10 were paid out.

RECOMMENDATION 7

In order to make its licensing system and procedures effective so that only qualified agents are given licences, the Financial Services Commission of Ontario (FSCO) should ensure that:

- its online licence system has the necessary controls to identify and reject licences for agents who do not meet minimum requirements;
- it establishes agreements with all agents' errors and omission insurance providers to provide FSCO with timely information on agents' compliance with insurance requirements, and information about consumer claims made against agents; and
- it investigates all agents who do not meet minimum standards, particularly for errors and omissions insurance requirements.

FSCO RESPONSE

FSCO welcomes the Auditor General's observations about its life insurance agent licensing system and procedures. The second phase of implementation of FSCO's Enterprise Development System will begin in July 2015 and once fully implemented, it will support complete data gathering, better internal controls, improved risk assessments and compliance, plus more market intelligence, most of which is already under way for the service provider sector. In addition, a data steward role will be created in July 2015 to manage and monitor the electronic data and establish early warning flags for inconsistent or dated information.

Life insurers are currently required to ensure that each agent complies with the *Insurance Act*, the regulations and the agent's licence. This includes ensuring that agents maintain required errors and omission insurance (E&O) coverage. FSCO will explore establishing information-sharing agreements with E&O insurers to ensure agent compliance with E&O insurance requirements, and to receive information about claims made against agents. The Superintendent will also leverage the information available from the Commercial Liability Statistical Plan for information about claims made by life insurance agents.

FSCO expects that these changes will facilitate more robust and targeted compliance activities in conjunction with its risk-based approach to regulation, as published in its Regulatory Framework.

Market Conduct

Slow Handling of Complaints

The Licensing and Market Conduct Division (Division) is responsible for dealing with complaints received by FSCO. When a complaint is received, the Division conducts an analysis and then may investigate to see whether enforcement action is needed. Over the past five fiscal years, FSCO has received an average of more than 1,100 complaints a year, about half of which were from consumers and the rest from industry stakeholders or other financial service regulators. As **Figure 11** indicates, 95% of complaints pertain to the insurance and mortgage brokerage sectors.

FSCO measures whether it closes 80% of consumer complaints within 75 calendar days and 98% of all complaints within 365 calendar days. The Division monitors the timeliness of complaint resolution and follows up on the complaints over 365 days. The majority of complaints are closed due to insufficient evidence or no findings, an average of around 20% end with a letter of warning or caution, and about 10%, or 105 complaints annually, are forwarded to its Investigations Unit. FSCO has generally met its timelines for simple complaints, but we noted that several complaints with high risks to consumers take several years to address.

Figure 11: Complaints Received by Sector, for the years ending March 31, 2010–2014[1]

Source of data: Financial Services Commission of Ontario

Regulated Sector	2010	2011	2012	2013	2014
Co-operative corporations	4	2	2	7	8
Credit unions and caisses populaires	24	22	29	35	35
Insurance[2]	614	716	965	720	730
Loan and trust	7	6	2	3	8
Mortgage brokers	354	411	351	343	319
Total	**1,003**	**1,157**	**1,349**	**1,108**	**1,100**

1. Complaints were received about both individuals and companies. FSCO did not have a breakdown of the two.
2. About 60% of these complaints pertain to the auto, property and casualty insurance sectors for the years 2013 and 2014. FSCO did not have a breakdown for the years 2010, 2011 and 2012.

We noted that several complaints handled by the Division incurred significant delays or ended in weak enforcement action. For example:

- In June 2013, a complaint was lodged against a credit union for possible conflict of interest and fiduciary breach on the part of the general manager of the credit union. There was minimal action on the file until May 2014, or 11 months later, when the complaint was transferred to another compliance officer. A warning letter for the conflict of interest was sent to the general manager of the credit union in September 2014.
- In September 2010, a complaint was received against a life insurance agent alleging client signatures were forged. The file was not forwarded to the Investigations Unit until March 2012, or 18 months later, during which time inquiries were made by the compliance officer. The final report was not completed until April 2014. In June 2014, the case was dropped by FSCO due to insufficient evidence.
- In February 2012, an anonymous complaint was received about a mortgage agent operating after having previously declared bankruptcy. The mortgage agent also had pleaded guilty to three charges under the *Bankruptcy and Trustee Act* in 2012 for failing to comply with conditions of his bankruptcy. On his 2010 and 2012 licence renewal applications, the mortgage agent did not disclose this information to FSCO as required. An investigative report was completed in April 2013. The complaint file was then transferred to legal services, and it took until March 2014, or 25 months after the complaint was filed, before FSCO issued a proposal to revoke the agent's licence. The agent requested a hearing to oppose the order, which was scheduled for October 2014.

Significant delays in handling, investigating and resolving complaint files affect both the complainants who are awaiting outcomes, as well as other consumers whom these agents or brokers continue to serve. Quickly finalizing complaint investigations may minimize the risk to complainants and other consumers.

Insufficient Proactive Examination Activity by FSCO

As **Figure 12** indicates, the Division has a program of conducting proactive onsite examinations only for mortgage brokerages; no other regulated financial institutions or insurance agents are examined unless an investigation has been initiated due to a complaint. Based on the examination activity, it would take the Division about 10 years to examine mortgage brokerages, brokers and agents, even without the other sectors being examined.

Examinations are intended to ensure compliance with key legislative requirements. For instance,

Figure 12: Examinations of Regulated Financial Sectors

Source of data: Financial Services Commission of Ontario

Regulated Financial Sector	# Licensed or Registered in 2014	Average Annual Examinations Completed Over Last Three Years	# of Years to Review the Entire Sector
Mortgage brokerages*	1,172	120	10
Life insurance agents	40,522	0	Never
General insurance agents	6,716	0	Never
Accident and Sickness Insurance Agents	975	0	Never
Credit Unions and caisses populaires	129	0	Never
Loans and trusts	52	0	Never
Co-operative corporations	1,775	0	Never

* FSCO examinations of mortgage brokerages include brokers and agents, who must work for a brokerage.

examinations of mortgage brokerages validate that the brokerage has the required errors and omissions insurance and has proper policies and procedures in place for retaining records and handling complaints. Because FSCO does not proactively examine the other regulated financial institutions and insurance agents for which it is responsible, the institutions might not be complying with requirements and that lack of compliance would go undetected.

The responsibility for overseeing and conducting inspections of insurance brokers, including those who sell home, auto and business insurance, was delegated to the Registered Insurance Brokers of Ontario (RIBO) by the Ontario government in 1981. RIBO handles complaints, licensing and examinations of its almost 18,000 brokers. In comparison to the Division's rate of examination of mortgage brokerages that would take 10 years to complete, we noted that RIBO has established a goal to examine every insurance broker at least once every five years.

The need for FSCO to conduct examinations of insurance agents was apparent from a recent product suitability review. FSCO conducted the first-time review in May 2014, to better understand the process that life insurance agents use at the point of sale, when making product recommendations to prospective policyholders. The review concluded that many sales activities are verbal, without any paper trail. FSCO also discovered that although 90% of agents stated they disclosed a conflict of interest to their clients when one existed, only 50% did so in writing as required by the *Insurance Act*.

To comply with continuing education requirements, insurance agents must report when renewing their licences that they have completed 30 hours of continuing education. To ensure agents are not giving misleading information, the Division may ask them to provide verification that the continuing education requirements were completed as reported. However, we noted that only 10 agents were audited in 2012/13, and only 50 were audited in 2013/14, out of approximately 15,000 agents who renew their licences each year.

Agents Disciplined by Other Regulatory Authorities Not Investigated Immediately

Approximately 50% of life insurance agents are members of other investment-related regulatory associations, such as the Mutual Fund Dealers Association of Canada and the Investment Industry Regulatory Organization of Canada. Licensed mortgage brokers or agents may also be licensed by the Real Estate Council of Ontario.

We reviewed the publicly reported disciplinary notices of these regulatory authorities and found a number of licensed life insurance agents and mortgage brokers and agents had been formally disciplined by them. For instance, as of June 2014, the Mutual Fund Dealers Associations of Canada had disciplined 66 members who were also active licensed life insurance agents, and some of these agents were permanently prohibited from further selling of mutual funds.

We sampled the Division's records to determine whether it had launched its own examination into the business practices of agents who had been disciplined by other regulatory authorities to ensure similar wrongdoings were not occurring in the FSCO-regulated sectors. We found the Division did not have adequate procedures or information-sharing arrangements with these other associations to be notified immediately when disciplinary actions occurred, and it did not routinely initiate any proactive examination of disciplined life insurance agents when it was aware of them. Instead, when it became aware of a disciplinary action by another regulator, the Division flagged the agent's file. No further action is taken until the licensee applies for his or her licence renewal, at which time the Division may investigate the licensee's suitability. As a result, licensed agents with serious regulatory disciplinary action against them by another regulator are allowed to operate for years without being further investigated in a timely manner by FSCO, which puts consumers at risk.

Following are examples of cases where we felt that more proactive and timely action from the Division would have been prudent to protect consumers:

- A life insurance agent was permanently banned and fined $350,000 in March 2009 by the Investment Industry Regulatory Organization of Canada for having undisclosed financial interests and dealings in accounts of two of his clients, including misappropriating nearly $500,000 from a client's account. The Division was unaware of this disciplinary action. In July 2010, the agent did not report the conviction on his licence renewal application, and the Division renewed the agent's licence. FSCO became aware of the discipline action in August 2010, over 17 months after the disciplinary action had occurred. FSCO then launched an investigation based solely on the agent's suitability and in April 2012, FSCO finalized its investigation and revoked the agent's licence. In the end, the life insurance agent operated under a FSCO licence for three years after the disciplinary action by another regulatory body.
- Another life insurance agent was permanently banned by the Mutual Fund Dealers Association of Canada and fined $40,000 in May 2012 for selling unapproved securities to his clients, resulting in their incurring substantial losses. The Division was notified in June 2012, but did not launch an investigation until December 2013—19 months later—when the agent applied for a licence renewal. We noted that the agent's licence was renewed in March 2014 because the investigation had not yet concluded and there had not been enough evidence gathered to deny the renewal at that time.
- A mortgage broker renewed his licence using FSCO's online licensing system in 2008 and 2010. On the 2010 application, the broker disclosed that he had failed to report on his 2008 application that he had several regulatory sanctions and convictions, including failing to disclose and remit retail sales tax of $76,000 in 2008; and that he had had his registration as a motor vehicle salesperson revoked in 2007, and his real estate broker licence revoked in 2010. Despite an ongoing investigation by the Division since 2010, the broker's licence was renewed in 2010, 2012 and 2014. In October 2014, seven years after the disciplinary action by another regulatory body, a final decision was made to revoke the agent's licence.

We also found FSCO's enforcement actions against licensed life insurance agents did not mirror the actions taken by other financial services regulators. Several agents who had received multi-year suspensions or prohibition bans from the Mutual

Fund Dealers Association of Canada only received from FSCO letters of caution warning them that regulatory action may be taken in the event of another violation.

RECOMMENDATION 8

In order to ensure that the Financial Services Commission of Ontario (FSCO) meets its mandate to provide regulatory services that protect the public interest and enhance public confidence in the regulated financial sectors, FSCO should:

- take timely action to investigate complaints, and have adequate systems and procedures in place to monitor the timelines and outcomes of its handling of complaints and investigations;
- assess the need for proactive investigations in each of its regulated financial sectors that would allow for periodic examinations of all registrants and licensees;
- identify common issues from its examination activities and share them with the industry, and consider action that can be taken to mitigate their causes; and
- establish systems and procedures to promptly identify, investigate and determine the continued suitability of registrants and licensees who have received sanctions from other associations.

FSCO RESPONSE

Since September 2013, FSCO has consistently exceeded its complaint closing rate standards, which are among the highest standards for those regulators that have such performance measures. Processes are now in place to monitor timelines and outcomes of complaints and investigations.

FSCO agrees that proactive compliance is an important part of a robust monitoring and compliance framework that protects the public interest and enhances confidence in the regulated sectors. FSCO's Regulatory Framework focuses on bringing licensees into compliance through a multi-faceted approach. FSCO will assess the need for conducting periodic proactive investigations, as well as other factors that may cause FSCO to initiate an examination, in each of its regulated financial sectors as part of its ongoing risk-based regulation framework.

FSCO commits to providing more timely publication of reports for the industry identifying common issues from its examinations.

FSCO will explore further information-sharing arrangements to ensure that licensees sanctioned by other regulators are assessed more quickly, in accordance with governing legislation and with the due process to which they are entitled. For example, and more recently, FSCO has negotiated a memorandum of understanding with the Mutual Fund Dealers Association. Any enforcement action taken by FSCO, if warranted, will be based on those penalties authorized under the applicable laws.

Potential Benefits to Transferring Regulatory Oversight to Associations or Other Government Regulators

FSCO is required by the *Insurance Act* and the *Mortgage Brokerages, Lenders and Administrators Act, 2006*, to issue licences and review market conduct for mortgage brokerages, mortgage brokers, mortgage agents and insurance agents. FSCO is responsible for directly overseeing more than 55,000 registrants and licensees in the insurance sector (this does not include insurance brokers, who are licensed by the Registered Insurance Brokers of Ontario) and more than 11,000 in the mortgage sector. We felt that these large numbers could justify the industries assuming greater responsibility for overseeing their professions, including their establishing self-regulation and consumer protection funds, as is the case in many other similar self-regulated service industries. **Figure 13** highlights some of the more recognizable self-regulating entities.

If responsibility for oversight of regulated financial sectors were to fall to associations that oversaw industries, FSCO could assume the role of overseeing those associations rather than overseeing individual companies. This would require that FSCO recommend changes to the legislation that governs these professions, but it would allow FSCO to focus its resources on more serious and strategic matters pertaining to the regulated industries.

FSCO currently relies on delegated regulatory oversight by two associations:

- As mentioned earlier, the Registered Insurance Brokers of Ontario (RIBO) regulates the almost 18,000 insurance brokers in Ontario, in accordance with the authority granted to it under the *Registered Insurance Brokers Act*. It is self funded and maintains a Professional Indemnification Fund that covers losses on claims of premiums misappropriated by brokers. On-site examinations are conducted regularly to evaluate brokers' practices and to verify information reported during the licensing application and renewal process. RIBO is required to maintain both a Complaints Committee and a Discipline Committee. RIBO conducts investigations of brokers based on complaints from the public and issues arising from the spot checks. FSCO conducts an annual examination of the affairs of the Registered Insurance Brokers of Ontario to ensure it is meeting the legislative requirements.
- The Ontario Mutual Insurance Association examines all 42 farm mutual insurance firms under an agreement with FSCO. Under the *Insurance Act*, a Fire Mutual Guarantee Fund was established to wind up farm mutual

Figure 13: Examples of Self-Regulating Professional Organizations in Ontario

Prepared by the Office of the Auditor General of Ontario

Profession	Name of Regulating Entity	Issues Licences to Members	Responsible for Setting Members' Standards and Professional Development Requirements	Administers a Consumer Protection Fund to Cover Losses Caused by its Members	Responsible for Disciplinary Action Against Members
Accountants and auditors	Chartered Professional Accountants of Ontario and Public Accountants Council for the Province of Ontario	Yes	Yes	No	Yes
Funeral directors	Board of Funeral Services	Yes	No	Yes	Yes
Insurance brokers	Registered Insurance Brokers of Ontario	Yes	Yes	Yes	Yes
Investment dealers	Investment Industry Regulatory Organization of Canada	Yes	Yes	Yes	Yes
Lawyers and paralegals	Law Society of Upper Canada	Yes	Yes	Yes	Yes
Motor vehicle salespeople	Ontario Motor Vehicle Industry Council	Yes	No	Yes	Yes
Mutual fund dealers	Mutual Fund Dealers Association of Canada	Yes	No	No	Yes
Real estate and business brokers	Real Estate Council of Ontario	Yes	Yes	Yes	Yes
Travel sales	Travel Industry Council of Ontario	Yes	No	Yes	Yes

insurance companies that ran into financial difficulties. The Association monitors insurers' solvency and administers the fund, which has never been used.

FSCO also regulates financial sectors with only a few registrants when other government regulators could assume this responsibility. For example, FSCO directly regulated only 18 of 339 insurance companies operating in Ontario; 279 insurers are regulated by the federal Office of the Superintendent of Financial Institutions (OSFI) since they are federally incorporated; and 42 farm mutual insurance firms are examined by the Ontario Mutual Insurance Association, with FSCO oversight of the Association. It is inefficient for FSCO to oversee such a small number of companies, and it would likely be more practical to establish arrangements with OSFI to oversee all insurers.

Similarly, the number of credit unions and caisses populaires FSCO oversees has declined from 251 in 2004 to 129 in 2014.The federal government enacted changes in December 2012 that allow credit unions to incorporate federally, instead of provincially as previously required, and to be governed by the federal *Bank Act*, which would transfer regulatory oversight to the OSFI.

RECOMMENDATION 9

To ensure that regulatory processes exist commensurate with the size and maturity of the industries, the Financial Services Commission of Ontario (FSCO) should explore opportunities to transfer more responsibility for protecting the public interest and enhancing public confidence to new or established self-governing industry associations, with oversight by FSCO. Areas that could be transferred include licensing and registration, qualifications and continuing education, complaint handling and disciplinary activities. In addition, associations could be responsible for establishing industry-sponsored consumer protection funds to provide more confidence in their services by the public. FSCO should then submit such proposals to the Ministry of Finance for consideration of legislative changes that would make it possible.

For regulated financial sectors, including insurance companies, credit unions and caisses populaires that have fewer registrants, FSCO, in conjunction with the Ministry of Finance, should explore the possibility of transferring its regulatory responsibilities to the federal Office of the Superintendent of Financial Institutions.

FSCO RESPONSE

It should be noted that the responsibility for initiating legislative reviews of regulatory requirements for each financial sector rests with the government.

Modern financial services regulation calls for a holistic view of the financial services rather than a siloed approach. While there are many reasons to create self-regulatory agencies, most self-regulatory organizations were created to oversee a single sector. As a regulator of many financial services, FSCO looks at the complex profile of the individual or business in the context of today's highly inter-connected financial services marketplace and not just as a licensee in a single sector. FSCO will support the Ministry of Finance when legislative changes are being considered.

With respect to transferring some regulatory responsibilities to another regulator, the government announced in the 2013 Budget that Ontario will be phasing out responsibility for insurance company solvency supervision. FSCO is responsible for market conduct of the credit unions and caisses populaires sector whereas the Deposit Insurance Corporation of Ontario is responsible for solvency regulation of the sector. The role of the two regulators for oversight of the credit union sector will be examined by the government as part of the five-year review of the *Credit Unions and Caisses Populaires Act, 1994* which commenced on October 1, 2014.

Appendix—Pension Plan Membership, for the years ending March 31, 2011–2013

Source of data: Financial Services Commission of Ontario

	2011	2012	2013
Single-employer pension plans/Number of Plans	**7,646**	**7,646**	**7,396**
Defined-benefit pension plans	**4,402**	**4,419**	**4,241**
Active members	667,000	661,000	684,000
Retired members, deferred members and other beneficiaries	621,000	622,000	659,000
Total members	**1,288,000**	**1,283,000**	**1,343,000**
Defined-contribution pension plans	**3,244**	**3,227**	**3,155**
Active members	340,000	343,000	345,000
Retired members, deferred members and other beneficiaries	55,000	56,000	58,000
Total members	**395,000**	**399,000**	**403,000**
Total Members (single-employer pension plans)	**1,683,000**	**1,682,000**	**1,746,000**
Multi-employer pension plans/Number of plans	**121**	**118**	**118**
Defined-benefit pension plans	**82**	**77**	**77**
Active members	375,000	365,000	367,000
Retired members, deferred members and other beneficiaries	453,000	457,000	469,000
Total members	**828,000**	**822,000**	**836,000**
Defined-contribution pension plans	**39**	**41**	**41**
Active members	31,000	32,000	38,000
Retired members, deferred members and other beneficiaries	20,000	24,000	24,000
Total members	**51,000**	**56,000**	**62,000**
Total Members (multi-employer pension plans)	**879,000**	**878,000**	**898,000**
Jointly sponsored pension plans/Number of Plans	**7**	**11**	**10**
Defined-benefit pension plans	**7**	**11**	**10**
Active members	706,000	732,000	701,000
Retired members, deferred members and other beneficiaries	501,000	523,000	498,000
Total members	**1,207,000**	**1,255,000**	**1,199,000**
Total Members (jointly sponsored pension plans)	**1,207,000**	**1,255,000**	**1,199,000**
All pension plans/Number of plans	**7,774**	**7,775**	**7,524**
Defined-benefit pension plans	**4,491**	**4,507**	**4,328**
Active members	1,748,000	1,758,000	1,752,000
Retired members, deferred members and other beneficiaries	1,575,000	1,602,000	1,626,000
Total members	**3,323,000**	**3,360,000**	**3,378,000**
Defined-contribution pension plans	3,283	3,268	3,196
Active members	371,000	375,000	383,000
Retired members, deferred members and other beneficiaries	75,000	80,000	82,000
Total members	**446,000**	**455,000**	**465,000**
Total Members — all pension plans	**3,769,000**	**3,815,000**	**3,843,000**

Chapter 3

Ministry of Health and Long-Term Care

Section 3.04 Immunization

Background

Immunization with vaccines can reduce or eliminate the prevalence of many infectious diseases and therefore help maintain a healthier population and reduce the health-care costs associated with the treatment of these diseases.

The publicly funded immunization schedule currently includes vaccines that protect against 16 different diseases. Eligible persons in Ontario can be immunized against these infectious diseases at no cost. The eligibility criteria vary by vaccine, with most vaccines being available only to people within certain age groups. Individuals may purchase vaccines for which they are not eligible, as well as other vaccines that are approved for sale in Canada but are not publicly funded, such as the vaccine for shingles. Most vaccines are administered by family physicians, but other health-care providers, including public health unit nurses and pharmacists, also administer certain vaccines, such as the influenza (flu) vaccine.

Responsibility for Ontario's immunization program is shared among various parties, as shown in **Appendix 1**:

- The federal government is responsible for approving new vaccines prior to their use in Ontario and elsewhere in Canada and also arranges vaccine purchasing agreements in which provinces may choose to participate.
- The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for Ontario's immunization program, including immunization policy development, implementation and oversight. This includes advising the government on which vaccines to publicly fund and the related eligibility criteria.
- Under Ontario's *Health Protection and Promotion Act*, 36 public health units across the province are responsible for administering the Ministry's publicly funded immunization programs in their respective areas. The Ministry has established protocols with which public health units are required to comply. Each public health unit is led by a local medical officer of health and is governed by a municipally controlled board of health.
- The Ministry's Ontario Government Pharmaceutical and Medical Supply Service (Ontario Government Pharmacy) is responsible for purchasing vaccines and distributing them to health-care providers, such as physicians in Toronto who administer vaccines, and to public health units in the rest of the province, which in turn distribute the vaccines to health-care providers.

- Public Health Ontario, a Ministry-funded agency, is responsible for monitoring, among other things, the percentage of Ontarians who receive vaccines, and adverse events following immunization.

In 2012, the Chief Medical Officer of Health commissioned a review to identify opportunities to improve the effectiveness and efficiency of Ontario's publicly funded immunization system in order to address the system's growth, both in cost and complexity in the last several years, the corresponding low vaccination coverage rates, and the associated reasons. The resulting report, *Ontario's Publicly Funded Immunization System: Building on Today's Strengths, Innovating for the Future—Report of the Advisory Committee for Ontario's Immunization Review* (referred to as the 2014 Immunization System Review) was submitted to the Ministry in March 2014. It identified a number of issues, many of which we also identified and discuss in this report.

The Ministry does not track or monitor the total costs of delivering the immunization program in Ontario. We estimated that operational funding for Ontario's immunization program was about $250 million in both the 2012/13 and the 2013/14 fiscal years, as shown in **Figure 1**. In addition to these costs, the total costs to develop, between 2007 and 2016, a new public-health information system that includes a new immunization registry are expected to exceed $160 million.

Audit Objective and Scope

Our audit objective was to assess whether there are effective governance, information technology systems, and policies and procedures in place to ensure that Ontario's immunization program protects against vaccine-preventable diseases in an efficient and cost-effective manner and is in compliance with legislative requirements. Our last audit of immunization in Ontario was conducted in 2003 as part of a larger audit of Ontario's Public Health Activity. Senior ministry management accepted our audit objective and associated audit criteria.

Our audit work was primarily conducted at the Ministry, including work at its Ontario Government Pharmacy. We also visited three public health units—Toronto Public Health, Oxford County Public Health, and the Sudbury and District Health Unit—to review their processes for administering immunization programs, including how they ensure that vaccines are kept at the appropriate temperature to maintain potency. Our fieldwork was conducted between December 2013 and April 2014.

We also spoke with representatives from: Public Health Ontario (the government agency responsible for, among other things, evaluating the immunization program, conducting research, surveillance of the percentage of people that are immunized—that is, immunization coverage—and investigating adverse events following immunization) and its Provincial Infectious Diseases Advisory Committee—Immunization; the Ontario Medical Association; and selected other public health units in Ontario. As well, we obtained information on the delivery of immunizations by immunization programs in other jurisdictions, including other Canadian provinces (British Columbia, Manitoba, and Alberta), New York State, Australia, and the United Kingdom.

In conducting our audit, we also reviewed relevant documents and administrative policies and procedures; analyzed information; interviewed appropriate staff from the Ministry and public health units; and reviewed relevant research from Ontario, various other North American jurisdictions, Australia and the United Kingdom. In addition, we asked the Ministry to run a number of computer reports in order for us to gain a greater understanding of vaccine wastage among public health units. We also obtained and analyzed ministry data on physician claims from the Ontario Health Insurance Plan (OHIP) system and on pharmacist claims from the Health Network System to identify duplicate patient billings for the influenza

Figure 1: Estimated Total Operating Costs of the Immunization Program, 2013/14 and 2012/13 ($ million)[1]

Source of data: Ministry of Health and Long-Term Care

Nature of Immunization-related Expenditures	2013/14	2012/13
Vaccine procurement	118.1	124.8
Public health units' operating costs–Ministry-funded[1]	56.4	54.9
Public health units' operating costs–municipally funded[1]	17.6	17.0
Vaccine administration costs[2]	50.0	46.1
Ministry costs to administer program[3]	4.2	4.4
Ontario Government Pharmacy[3]	1.1	1.1
Public Health Ontario	2.1	2.0
Total	249.5	**250.3**

1. All costs are for the fiscal year, except for "Public health units' operating costs–Ministry-funded" (row 2) and "Public health units' operating costs–municipally funded" (row 3). These estimates are primarily based on budgeted amounts for the calendar year.
2. Includes amounts paid to physicians and pharmacists for administering vaccines. The amounts paid to public health units for administering vaccines are included in the Ministry funding provided to public health units.
3. Excludes occupancy costs, which are not tracked.

vaccine. As well, we engaged two independent consultants, each of whom has expert knowledge of immunizations, to advise us.

Summary

Although there have been no significant outbreaks in Ontario, good information will always be needed to identify potential risks and, especially in a time of fiscal restraint, to evaluate program cost-effectiveness. The Ministry lacks good information to monitor whether Ontario's immunization program and delivery mechanisms operate in a cost-effective manner. For example, the Ministry does not track information on the total costs of delivering the immunization program in Ontario and therefore cannot ensure that the program is being delivered cost-effectively. Furthermore, information on children's immunization coverage rates relies on parents reporting information to public health units often years after their child is vaccinated, rather than health-care providers reporting information when they administer the vaccines. As such, immunization coverage information that could be used for decision-making is not reliable.

The Ministry also does not obtain good information on a timely basis about which federally recommended vaccines are cost-effective in Ontario. Since 2003, the Ministry has doubled the number of publicly funded vaccines, but does not have reliable information on their impact on Ontario's health system. Other significant issues noted during our audit include the following:

- **Minimal provincial co-ordination of public health units:** There is minimal provincial co-ordination of the 36 municipally governed public health units in Ontario over the immunization programs they deliver. Each public health unit acts independently and is not responsible to Ontario's Chief Medical Officer of Health. Further, over a third of the public health units each have a population that represents less than 1% of Ontario's population. The Ministry has not studied what could be the most cost-effective model or governance structure for delivering Ontario's immunization program.
- **The Ministry does not track total costs:** The Ministry does not track or monitor the total costs of delivering the immunization program in Ontario. We estimated, with assistance from the Ministry, these costs to be significant

at about $250 million in the 2013/14 fiscal year (a total that includes $74 million spent by public health units, $118 million in vaccine costs, $50 million in costs paid to health-care providers to administer vaccines, and $7 million in Ministry and Public Health Ontario administration costs).

- **No assessment of reasonableness of immunization costs incurred by public health units:** We noted significant variations in Ministry funding to public health units, ranging from a low of $2 per person living in one public health unit's area to a high of $16 per person living in another's. However, the Ministry does not compare the immunization-related costs among the 36 public health units to determine whether patient needs are met cost-effectively, and it has not analyzed the reasons for these funding variations.
- **Ontario's child-immunization rates are below federal targets:** Low immunization-coverage rates can increase the risk of disease outbreaks. Public Health Ontario data indicates that Ontario's childhood immunization-coverage rates (that is, the percentage of children immunized) are below federal immunization-coverage targets and, in almost all cases, below the level of immunization coverage that is necessary to prevent the transmission of disease. In fact, one public health unit reported that outbreaks would occur if its measles immunization-coverage rate decreased by as little as 10%. Ontario has not set its own provincial immunization targets, and there are geographic differences in immunization rates in the province.
- **Ministry lacks information on immunization coverage in licensed daycares:** Ministry policy requires daycare centres to report annually to their local public health unit on the immunization status of children. The public health units are then to report information on daycare centres' immunization coverage rates to the Ministry. However, public health units do not report this information to the Ministry, and the Ministry does not request it. As a result, the Ministry is not aware of immunization-coverage levels in daycare centres or even the number of immunized children in daycare centres.
- **Thousands of questionable payments for flu immunizations in 2013/14:** We noted almost 21,000 instances where the Ministry paid physicians and pharmacists for administering the flu vaccine more than once to the same person over nine years of age during the 2013/14 flu season. The Ministry needs to introduce controls to prevent and identify duplicate vaccinations, and investigate the reasons for any duplicate billings made to the Ministry.
- **Many doses of influenza (flu) vaccine unaccounted for:** The Ministry did not have information on what happened to almost one million doses of the flu vaccine that it purchased.
- **Over-ordering of vaccines results in wastage:** Health-care providers and public health units reported $3 million in vaccines expiring before use. There is no cost to public health units or health-care providers who over-order the free Ministry funded vaccines, and no Ministry system is in place to consistently identify unreasonable orders. Moreover, five of the six public health units we reviewed expressed concerns regarding excess and expired inventory at health-care providers.
- **New $160-million system will not reach full value until all vaccinations are recorded at the time of immunization:** Ontario is in the process of implementing a new system (Panorama), which includes a vaccination registry, at an estimated cost that has escalated by over $85 million and is now expected to exceed $160 million. However, similar to the older system it is replacing, vaccinations are still not being electronically recorded by most health-care providers at the time they are administered. Parents must still report their

children's vaccinations to their local public health unit. This practice continues to result in problems with data accuracy and completeness. Furthermore, there are no plans to track vaccinations administered to adults. Until immunization information is registered by health-care providers at the time a vaccination is given, Panorama will not provide the data needed to identify areas of the province with low immunization-coverage rates, which could help prevent future outbreaks and identify vulnerable people during an outbreak. The Ministry indicated that the potential of Panorama for eventual point-of-care documentation of immunization (for example, physicians entering information electronically at the time a vaccination is given) would be an improvement over the existing system. However, the full benefit of Panorama cannot be recognized until all providers can update the registry at the time of vaccination.

- **There is no process to ensure vaccination of adult immigrants:** According to the Public Health Agency of Canada, immigrants are often not immunized prior to arriving in Canada, and may come from countries where vaccine-preventable diseases are more prevalent. This makes them more likely to acquire a vaccine-preventable disease and spread the disease to unimmunized Ontarians. However, no federal or provincial processes are in place to ensure that new immigrants are immunized before or soon after arriving in Ontario.
- **Ontario has not fully assessed the cost-effectiveness of funding some federally recommended vaccines:** There are financial impacts on the health-care system that result from decisions to either fund or not fund vaccines in the province. For example, publicly funding cost-effective vaccines can save money (by reducing health-care costs) and reduces the incidence of vaccine-preventable diseases. By assessing the cost-effectiveness of funding vaccines, the Ministry would have evidence to support its decision on whether or not to publicly fund a vaccine.

OVERALL MINISTRY RESPONSE

The Ministry of Health and Long-Term Care (Ministry) welcomes the recommendations contained in the Auditor General's report as important inputs to further strengthen Ontario's immunization program and continue building confidence in both the safety and effectiveness of vaccines.

Ontario has had a long history as a leader in the prevention and control of infectious diseases through immunization. To highlight some recent examples:

- Ontario was the first jurisdiction in North America to implement the Universal Influenza Immunization Program, which was further expanded in 2012 to improve access through pharmacist-administered flu shots.
- Ontario has continued to improve the quality of its immunization program through the creation of Public Health Ontario in 2007, which, among other things, has strengthened Ontario's processes relating to vaccine safety surveillance.
- Ontario is one of the only Canadian jurisdictions that require children attending school and licensed daycare to be immunized against particular diseases.
- Under the Public Health Accountability Agreement first established in 2011, Ontario's public health units continue to demonstrate their commitment to excellence in the delivery and management of immunization programs at the local level.
- Ontario is currently implementing Panorama, the provincial immunization repository, with 35 out of 36 public health units now using its immunization component. The Ministry's vision is to expand Panorama's current focus on school-aged

children to include, in future phases, all immunizations for all Ontarians.

Parents are of particular importance in the immunization environment, as children have a high degree of susceptibility to disease and the greatest need for immunization. Although it is easy to forget the ravages of vaccine-preventable diseases from the past (for example, measles, diphtheria and meningitis), Ontario continues to work particularly with parents to improve access to vaccines and to ensure they understand the diseases, the risks and benefits of immunization, and how to protect their children.

In fall 2012, the Ministry initiated a comprehensive Immunization System Review, the findings of which were submitted to the Ministry in March 2014. The Ministry is currently developing a five-year Immunization Program Renewal action plan informed by these findings. We are pleased to note the close alignment of the Immunization System Review with the Auditor General's recommendations. These recommendations will be a significant contribution to the action plan, which aims to shape the future of Ontario's immunization system and improve the health of all Ontarians for generations to come.

Detailed Audit Observations

Complex Program Delivery Structure

Responsibility for Immunization

Under the *Health Protection and Promotion Act* (Act), the Chief Medical Officer of Health is responsible for dealing with risks to public health in Ontario, and reports on, among other things, immunization issues. The Act makes 36 boards of health (one for each public health unit) responsible for ensuring that publicly funded immunization programs are provided in each of their areas. (**Appendix 1** highlights selective key responsibilities for Ontario's immunization program.) Each public health unit has a medical officer of health, who is required under the Act to control infectious diseases, including vaccine-preventable diseases, within that public health unit's boundaries. Each medical officer of health reports to its local board of health on issues related to public health, including publicly funded immunizations. The boards of health are all municipally controlled to varying degrees, with three types of board structures set out in legislation:

- At 25 boards of health, the majority of members are appointed by municipalities, with the remaining members provincially appointed. Although provincially appointed representatives are expected to provide the province's perspective to the board, they are not required to report back to the province.
- At nine boards of health, all members are elected municipal councillors.
- At two boards of health, membership is a mix of elected councillors and the general public.

No Analysis of Most Cost-effective Governance Model

The Ministry has an accountability agreement with each board of health that sets out, among other things, each board's reporting requirements to the Ministry. However, there are minimal requirements with respect to reporting on a given public health unit's vaccine-preventable disease program. Further, although the Ministry funds the majority of costs of the 36 public health units (the Ministry funds 75% and municipalities fund 25%), the public health units are municipally controlled, and in most situations are not responsible to the Chief Medical Officer of Health or the Ministry. As well, while the Act requires boards of health, and therefore the public health units, to comply with Ministry-created Ontario Public Health Standards and related protocols, including those on immunization, there are few requirements to report results to the Ministry. Even where there are requirements, this information, for the most part, is not reported. Consequently, although the Ministry has overall responsibility for immunizations in Ontario, the Ministry does not have sufficient information on local public health unit issues regarding immunizations to make informed funding or policy decisions.

Many stakeholders are involved in the delivery of Ontario's immunization program, and some of them have a vested interest in retaining the current structure. As a result, there is a wide range of views on the best delivery model for Ontario's immunization program. In 2012, the provincially funded Commission on the Reform of Ontario's Public Services (the Drummond Report) recommended integrating the public health system into other parts of the health system (that is, Local Health Integration Networks), as well as considering uploading public health to the provincial level to ensure better integration with the health-care system.

We asked four local medical officers of health in Ontario for their views on an effective model of governance for the immunization program in Ontario. One medical officer of health told us that a good model of governance would be to have a provincial board of health that was chaired by Ontario's Chief Medical Officer of Health and to which all local medical officers of health would report. (This is similar to the model used in British Columbia, where the local medical officers of health report to the Provincial Health Officer.) This local medical officer of health indicated that such a model of governance would allow for more consistent practices across Ontario and enable more collaboration between medical officers of health, because the current structure involves each medical officer of health working in relative isolation. The three other medical officers of health disagreed with this approach, stating that it could undermine their ability to respond quickly to health matters in their local public health units. They believed that the current approach was the best governance model.

Although it is beneficial to have public health close to the community, the Ministry should in this time of fiscal constraint review potentially more cost-effective options, including a review of the immunization program delivery structure.

Immunization Program Costs Not Monitored

The Ministry does not track or monitor the total costs of delivering the immunization program in Ontario. Given the significant expenditures on the immunization program, we believe that the Ministry should be more closely monitoring these costs to ensure that the immunization program is being delivered in a cost-effective manner.

Although each public health unit's budget submission to the Ministry indicates the expected expenditures on its vaccine-preventable diseases program, the Ministry has never required public health units to report actual spending, or compared immunization program costs or vaccine expenditures across public health units. Further, although the Ministry had information in most cases on the amount paid for each instance in which a health-care provider administers a vaccine, it had not tracked the total amounts paid to each provider or overall. Without complete and accurate cost information, it is difficult for the Ministry to determine whether services are being delivered cost-effectively.

Because the Ministry does not track the total costs of Ontario's immunization program, we requested information to determine these costs. As shown in **Figure 1**, we estimated the total operating costs for the 2013/14 fiscal year to be about $250 million. The operating costs include costs incurred by public health units, boards of health, Public Health Ontario, and the Ministry. The Ministry's costs include vaccine costs, associated Ontario Government Pharmacy costs, and amounts paid to health-care providers to administer vaccines. The costs associated with implementing the new immunization registry—the main component of the Ministry's new information technology system, Panorama—are not included here and are discussed in the section titled *New Information System Yet to Realize Full Benefit* later in this report.

Ministry funding to each public health unit for the immunization program is not based on an assessment of the demand for services and does not consider, for example, the size or age composition of a public health unit's population. Rather, the funding to public health units is on a historical basis, with increases averaging 2% each year since 2010. However, the Ministry has not analyzed whether this is the appropriate level of funding to meet patient needs in each public health unit.

Our analysis indicated that the Ministry's historical-funding approach has resulted in large variances in per capita funding among the public health units. In fact, ministry funding for 2012/13 varied by public health unit from a low of $2 per person in one public health unit to a high of $16 per person at another, with a median funding of $6 per person. Since municipalities fund 25% of public health unit costs, municipalities that can afford to spend more money on public health receive more ministry funding. The Ministry had not analyzed the reasons for the regional variations or assessed the impact that such funding variations have had on immunization programs across Ontario. For instance, the Ministry has not assessed whether higher per capita funding to public health units resulted in better immunization programs.

Ministry Needs to Review Number and Size of Public Health Units

The Ministry has not analyzed the number of public health units to determine the most cost-effective delivery structure. The 2003 Walker Report, by the Expert Panel on SARS (Severe Acute Respiratory Syndrome) and Infectious Disease Control, recommended consolidating the number of public health units to between 20 and 25, and retaining local presence through satellite offices, to allow for a critical mass to support comprehensive expertise and capacity at the public health unit level. Further, the 2006 report by the Ministry's Capacity Review Committee (established to review the organization and capacity of public health units) recommended reducing the number of public health units from 36 to 25 to ensure sufficient resources and staff expertise, and to reduce vacancies in small public health units. In 2009, the Ministry surveyed stakeholders, including boards of health, medical officers of health and other public health unit staff. About a third of respondents were against any merger to build capacity, primarily because they wanted to retain their autonomy in order to best respond to the unique needs of their specific communities. Another third generally supported a merger, while the remainder had no preference. Despite the evidence indicating the benefits of a reduced number of public health units, the Ministry had not undertaken any subsequent analyses to determine the most cost-effective model of service delivery. Our review of the program structure in larger provinces indicated two had significantly fewer health units, with Quebec having 18 regions, each with a medical officer of health, while British Columbia has five regional health authorities, each with a local chief medical officer of health.

We noted that 13 of the current public health units in Ontario have populations of fewer than 135,000 each, which is less than 1% of Ontario's population. Of these, five had a part-time medical officer of health as of May 2014, with four of these qualified and one in the process of completing specialized education required under a regulation to the *Health Protection and Promotion Act*. Merging smaller public health units may better enable them to recruit and retain a full-time medical officer of health and ensure that sufficient time and expertise is readily available to respond to public health needs, including occurrences of disease and outbreaks.

RECOMMENDATION 1

To ensure that Ontario's immunization program is delivered in an efficient and cost-effective manner, the Ministry of Health and Long-Term Care should review the immunization program delivery structure, including total funding and the allocation of funding to public health units. Such a review should consider alternative delivery options.

MINISTRY RESPONSE

The Ministry agrees that the delivery of Ontario's publicly funded immunization program in an efficient and cost-effective manner is an important priority, and is pleased to receive advice and recommendations from the Auditor General on this area. The Ministry is currently developing a five-year Immunization Program Renewal action plan to be released in 2015.

As part of its mandate for accountability and transparency, the Ministry will also undertake a review of public health units, targeted to begin in the 2015/16 fiscal year. The outcomes of this review will support improvements in the delivery of public health programs and services, including immunization, within a transformed health system. The Ministry's considerations relating to the structure and organization of public health program and service delivery, including funding models and allocation, will be informed by the findings of the Immunization System Review and the Auditor General's recommendations, and will be built on previous Ministry-commissioned reviews of these topics.

Cost and Reliability Concerns with New Information System

New Information System Yet to Realize Full Benefit

After the 2003 outbreak of Severe Acute Respiratory Syndrome (SARS), the federal government identified a need for a nation-wide disease surveillance system, because contagious diseases, including vaccine-preventable ones, cross provincial/territorial boundaries. As a result, a computer system called Panorama was commissioned by the federal government in conjunction with the government of British Columbia. In 2007, Ontario decided to replace the Immunization Records Information System (IRIS)—its immunization registry software—with Panorama and subsequently approved plans to customize and implement three of Panorama's components: an immunization registry, a vaccine inventory tracking system, and one other component to assist public health units in managing outbreaks. In 2010, a fourth component was approved to assist public health units in investigating cases of vaccine-preventable disease.

As shown in **Figure 2**, the cost of implementing Panorama rose from the 2007 estimate of $79 million to implement three components by March 2011, to $158 million to implement four components by March 2014, and then to $165 million to implement just two components

Figure 2: Panorama Timelines, Cost Estimates, and Extent of Functionality

Source of data: Ministry of Health and Long-Term Care

Date	Proposed Project Components[1]	Costs to Date	Estimated Total Project Cost ($ million)	Expected Implementation Period	Project Status
May 2007	1,2,3	0.7[2]	79.4	May 2007–Mar. 2011	Approved
Nov. 2009	On hold	45.0	On hold	On hold	On hold
Aug. 2010	1,2,3,4	45.0	158.0	Aug. 2010–Mar. 2014	Revisions approved
Dec. 2010	1,2,3,4	45.1	165.3	Dec. 2010–Mar. 2014	Revisions approved
Mar. 2014	1,2	138.6	165.3	Dec. 2010–Mar. 2016	Awaiting approval

1. There are four project components: 1–Immunization registry; 2–Inventory management; 3–Outbreak management; and 4–Vaccine-preventable disease investigations.
2. These are the preliminary planning costs since the project began in the 2005/06 fiscal year.

by March 2016. As a result, the estimated cost increased by 110%, even though it included implementing fewer components of Panorama than originally planned.

As of March 2014, $139 million had been spent to date on implementing Panorama in Ontario ($126 million funded by the Ministry and $13 million funded by the federal government). By July 2014, $142 million had been spent. At that time, the Ministry had implemented the immunization registry component in 35 public health units (with the last one expected to be implemented by summer 2015) and the inventory tracking component at the Ontario Government Pharmacy. The Ministry expected the inventory tracking system components to be implemented in all 36 public health units by fall 2015. However, the Ministry indicated that all reporting capabilities of these components would not be fully operational until March 2016. Further, the Ministry had not yet developed a cost estimate or timeline, nor obtained associated approvals, for implementing Panorama's outbreak and investigation components, although it still plans to implement them.

Although Panorama is being adopted in many larger provinces, including Ontario, it is not being adopted in all provinces. Furthermore, although Panorama is replacing Ontario's 36 separate IRIS immunization registries (one in each public health unit) with one immunization registry, it still has certain limitations similar to those of IRIS: that is, vaccinations will still not be electronically recorded by physicians at the time they are administered. Because Panorama does not address this key deficiency of IRIS, it, too, will not provide complete or accurate information. As a result, Panorama will not contain information that can be used to accurately identify areas of the province with low immunization coverage rates that require tailored immunization strategies to help prevent future outbreaks, and to identify vulnerable people during an outbreak. Despite its high and rising costs, until such time as all vaccinations are contained in Panorama, the completeness of the data is limited, similar to IRIS.

Vaccination History Not Complete

In Ontario, the public health units are responsible for maintaining immunization registry information. We noted in our 1997 and 2003 Annual Reports that they update the registry based on vaccination information reported by children's parents when the child enters school, which may not be reliable because the reporting usually occurs between four and six years after the child receives most vaccinations. The public health units then manually enter the information into the immunization registry, which is time-consuming and also increases the risk of error. As a result, the vaccination history on the registry may not be reliable. In 2003, the Ministry indicated it was working toward a registry that would more effectively monitor children's immunization status.

Immunization registries are an accepted best practice to track the vaccination history of each person in a jurisdiction. Since most immunizations are given to children, registries are primarily used to track childhood vaccines, but they can also be used to track adult vaccines (for example, adults should have a combination tetanus and diphtheria booster ever 10 years). With accurate and complete immunization information, a registry can be used to send reminders to individuals, including parents of children, who have not yet had the recommended publicly funded vaccinations. It can also be used to track areas of a jurisdiction in which a low percentage of the population has been vaccinated and, during an outbreak, to quickly identify and notify persons who have not been immunized and are therefore more vulnerable. As well, providing physicians or others who administer vaccines with access to such a registry can help prevent people from receiving duplicate immunizations in error.

Panorama includes a new immunization registry. The Ministry indicated that the new system is creating efficiencies because it is replacing

36 separate Immunization Records Information System (IRIS) immunization registries (one in each public health unit) with one central registry. This enables public health units to more quickly access the immunization records of a child who has moved from one public health unit area to another. However, public health units will still rely on information reported by parents years after their children's immunizations, and public health units will still need to manually enter this information into Panorama.

There is no ministry requirement for tracking information on all vaccinations given to each adult and no current plans to track such information. As a result, there will still be minimal information available on vaccinations received by adults.

Having physicians and other health-care providers update the registry at the time a vaccine is administered would provide more reliable information. In fact, Manitoba, Alberta, New York State, Australia, and the United Kingdom all have processes whereby, at the time a vaccination is given, physicians or other health-care providers submit information, usually electronically, that updates an immunization registry. In 2007, the Ministry envisioned that, in the longer term, physicians and other health-care providers would be able to update Panorama at the time a vaccine is administered. However, by summer 2014, the Ministry had not yet established its plan or associated timelines to enable physicians to update the immunization registry. The Ministry indicated that a key reason for this delay was that it needed to implement international data standards as part of Panorama's registry component prior to implementing processes to enable physicians to update immunization information at the time a vaccine is given.

RECOMMENDATION 2

Prior to proceeding with the implementation of Panorama's outbreak and investigation components, the Ministry should assess the current data completeness and accuracy deficiencies of Panorama. In this regard, to ensure that public health units have access to reliable immunization registry information in the event of an outbreak, and to send reminders to those who are due for immunizations (for example, for children according to the immunization schedule and for adults every 10 years for their tetanus booster), the Ministry of Health and Long-Term Care (Ministry) should develop processes, as part of its implementation of Panorama, that enable physicians and other health-care providers to electronically update the immunization registry each time they provide a vaccine, including those provided to adults.

As well, to better contain the escalation of costs to implement all four components of Panorama, the Ministry should review the costs and benefits of implementing the system's outbreak and investigation components to determine whether they will meet the Ministry's needs. If they are assessed to be cost-beneficial, the Ministry should develop a plan, including a budget and timelines, to implement these components in a cost-effective and timely manner.

MINISTRY RESPONSE

The Ministry agrees that incorporating immunization information from all health-care providers who administer vaccines in Ontario (including physicians and pharmacists) will be important to ensure a robust provincial immunization repository. This will, among other things, support outbreak management and immunization reminders. The Ministry will leverage its existing investment in Panorama, including its use of international immunization data standards, its capacity to support electronic linkages to other systems, and its capacity to record and track immunizations for all ages. This is in support of the Ministry's vision that all immunizations for all Ontarians will be housed in the provincial immunization repository. The Ministry will continue to develop options and recommendations to inform governmental decisions going forward.

The Ministry also agrees with the second part of the recommendation and will review the costs/benefits of implementing Panorama's outbreak management and investigations components. Recognizing that these components of Panorama address the business needs in public health, and also building on the implementation of Panorama's immunization component in 35 public health units, the Ministry will analyze the costs/benefits of proceeding with the outbreak management and investigations components. The Ministry will also develop options and recommendations to inform future government decisions.

Better Tracking of Immunization Coverage Rates Needed

Ontario's Immunization Coverage Rates Below National Targets

Vaccinating an individual works to protect just that person against the associated disease. However, vaccinating a sufficient number of people can reduce or stop the spread of infectious diseases transmitted between people within a population (because few susceptible people remain to be infected). Such a population is considered to have herd immunity with regard to that disease.

Establishing and achieving a targeted immunization coverage rate—that is, the desired percentage of a given population to be vaccinated against a disease—can help a population achieve herd immunity. The targeted rate is usually set higher than the associated herd immunity level, in part because some people who are vaccinated against a disease do not become immune and because in others, immunity diminishes over time.

The 2006 National Immunization Coverage Survey, conducted by the Public Health Agency of Canada, noted that adult coverage rates are an important health indicator that can be used to target public health interventions to populations identified as having low rates of immunization. National immunization coverage rate targets were initially established in 1996 for most childhood vaccines, with some of these targets updated and the targets for most newer vaccines—that is, human papillomavirus (HPV), varicella (chicken pox) and pneumococcal—set in 2005 and 2007. However, no national targets have been established for rotavirus vaccine (which is administered before a child is a year old). For adults, national targets were set to achieve the following for three groups of people by 2010:

- 80% pneumococcal coverage for those aged 65 or older;
- 95% pneumococcal coverage for certain high-risk groups, such as persons with HIV; and
- 100% varicella coverage for post-partum women without evidence of immunity and 99% rubella coverage for post-partum women prior to discharge from hospital.

There are no other national targeted immunization coverage rates for adults, expect for some targets for influenza.

As shown in **Figure 3**, the immunization coverage rates achieved in Ontario are all lower than the national targets, and coverage rates vary greatly across public health units. Furthermore, the coverage rates are almost all lower than the herd immunity threshold levels recommended by the National Advisory Committee on Immunization (NACI) and other authoritative sources. For example, the overall measles coverage rate was 88% in the 2012/13 school year, which is well below the recommended herd immunity threshold level of 96%–99%. In fact, in one public health unit, the measles coverage rate was just 61%. When herd immunity threshold levels are not achieved, there may not be enough people vaccinated to reduce or stop the spread of these infectious diseases to unimmunized people in Ontario. This is of particular concern in the public health units that have fewer immunized people.

Although the Ministry participated in establishing most of the national immunization coverage targets for children and adults, it did not adopt

Figure 3: Comparison of Ontario Immunization Coverage Rates to National Targets, by School Year (%)

Source of data: Ministry of Health and Long-Term Care

	National Coverage Target	2008/09	2009/10	2010/11	2011/12	2012/13[1]	2012/13 Range of Coverage among 36 Public Health Units
Early-childhood Vaccinations[2,3]							
Diphtheria	99	84	75	81	80	75	38-97
Measles	99	83	76	86	89	88	61-98
Mumps	99	83	76	86	89	88	61-98
Polio	99	83	75	80	79	74	38-97
Rubella	97	83	76	95	95	95	71-99
Tetanus	99	84	79	81	80	75	38-97
Meningococcal (1st dose)	97	–[4]	–[4]	–[4]	72	82	60-95
Pertussis	95	80	76	77	76	73	38-97
Varicella (chicken pox 1st dose)	85	–[4]	–[4]	–[5]	75	78	49-85
Haemophilus influenzae type b (Hib)	97	–[5]	–[5]	–[5]	–[5]	85	59-98
Pneumococcal	90	n/a[5]	n/a[5]	n/a[5]	n/a[5]	80	55-92
Rotavirus	n/a[6]	–[4]	–[4]	–[4]	–[4]	–[4]	–[4]
Grade 7/8 Vaccinations							
Hepatitis B	95	78	74	77	87	87	79-96
Human papillomavirus (HPV)	90	53	55	58	70	89	69-87
Meningococcal (2nd dose)	90	87	83	–[5]	84	80	79-96

1. Most recent results available from Public Health Ontario.
2. Until June 30, 2014, Ontario's *Immunization of School Pupils Act* required children starting school to have been vaccinated against six diseases: diphtheria, measles, mumps, polio, rubella, and tetanus. As of July 1, 2014, the legislation requires these children to have been vaccinated against three additional diseases (for a total of nine): meningococcal disease, pertussis (whooping cough), and varicella (chicken pox).
3. Immunization coverage rates for the early-childhood vaccinations are measured at age 7 except for varicella (reported at age 5) and pneumococcal and Hib (both reported at age 4). Seven-year-olds are considered immunized if they have received all the vaccinations required by that age according to Ontario's immunization schedule.
4. No data collected during these school years due to recent introduction of public funding for these vaccines.
5. Coverage rate not available, because Immunization Records Information System (IRIS) does not calculate this information correctly or comparably.
6. There is no recommended Canadian coverage target for rotavirus vaccine.

these targets. Further, no province-wide immunization coverage targets have been established. Despite the fact that the Ontario Public Health Standard on Vaccine Preventable Diseases (which sets out the desired outcomes and associated requirements that boards of health must follow) indicates that each public health unit is to achieve targeted coverage rates, the Ministry has established only a few targeted rates over the last several years for the public health units. For example, a target was established for only one vaccine for each public health unit in 2013, and none were established for 2014. The Ministry indicated that no targets have been set because the data being collected by the public health units was not comparable.

The 2014 Immunization System Review also suggested that program performance measures and targets should be in place for each vaccine, including immunization coverage targets based on the uptake required to achieve herd immunity.

The review also noted that it was difficult to obtain adult and senior immunization coverage data for Ontario. Tracking coverage rates can assist in assessing a population's risk of instances or outbreaks of vaccine-preventable diseases. Except for the influenza vaccine, the Ministry does not have information on the coverage rates actually achieved for adults, because this information is rarely tracked in the Ministry's immunization registry. The Ministry has not yet developed a plan to implement changes necessary to address key issues identified in the Immunization System Review. The Ministry expected to have such a plan developed in 2015.

One of the desired societal outcomes in the Ontario Public Health Standard on Vaccine Preventable Diseases is reduced incidence of disease. Low immunization coverage rates increase the risk of disease outbreaks. In fact, a 2013 Toronto Public Health report noted that if Toronto's measles coverage rates "drop by as little as 10%, outbreaks will occur." At the time of our audit, Public Health Ontario, which is responsible for monitoring immunization coverage rates in Ontario, indicated to us that the lack of information being tracked in Ontario's immunization registry made it difficult to relate low immunization coverage rates to any outbreaks that occur. Further deficiencies in the way registry data is captured can contribute to inaccurate information on immunization rates. Therefore, Public Health Ontario had not analyzed outbreaks by their location (such as whether they occur in a daycare centre, a school or a workplace) or by the age of those infected, which can help reduce the incidence of disease and outbreaks. Public Health Ontario expected to be able to conduct such analysis for school-age children once the new immunization registry, part of Panorama, is fully operational.

RECOMMENDATION 3

To promote higher vaccination coverage rates, including the achievement of herd immunity levels, and thereby protect against the spread of vaccine-preventable diseases, the Ministry of Health and Long-Term Care should establish targeted provincial immunization coverage rates for all vaccinations, and monitor, in conjunction with Public Health Ontario, whether they are being achieved.

MINISTRY RESPONSE

The Ministry agrees that the formal establishment and monitoring of immunization coverage targets is an element of immunization system performance management. To ensure that immunization coverage targets are as robust and up-to-date as possible, the Ministry will work with Public Health Ontario and other partners in reviewing the existing nationally established targets and setting new provincial immunization coverage targets as needed for all publicly funded vaccines in Ontario. The Ministry, in conjunction with Public Health Ontario, will continue to monitor coverage rates at the provincial and public health unit level, and will assess achievement against the provincial targets once established.

Inadequate Processes to Track and Address Low Immunization Coverage Rates for Children

Vaccination Requirements Different for Daycares and Schools

In Ontario, children are required to have certain immunizations to attend daycare centres and schools. (See **Appendix 2** for a comparison of different provinces' immunization schedules for publicly funded vaccines.) However, under the Ministry's policy on licensed daycare centres and the requirements under the *Immunization of School Pupils Act*, exemptions from immunizations are permitted for medical, conscience or religious reasons. Medical exemptions require a letter from a physician. For daycare centres, an exemption for conscience or religious reasons is allowed if a parent provides the daycare centre with a letter stating their reason. However, the Act states that once a child reaches school, parents wishing to obtain a similar exemption must swear a statement before certain individuals, such as a lawyer, a member of the Assembly, or certain court clerks.

In 2014, California began requiring parents who wanted their children to be exempt from a vaccination due to personal beliefs to obtain a statement signed by a health-care practitioner indicating that the parent received information about the benefits and risks of the vaccine, in addition to an exemption document similar to the one used in Ontario. Australia requires all exemptions to be signed by a health-care provider to ensure that parents understand the benefits and risks of immunization. The 2014 Immunization System Review suggested that the Ministry consider working with public health units to develop "consistent strategies for ensuring parents are aware of the risks of not having their children immunized before they submit a statement of exemption."

In Ontario, daycare centres must ensure that children have had the appropriate vaccinations for their age at the time they start attending the daycare centre. While daycare centres are required from time to time thereafter to ensure children obtain age-appropriate vaccinations, there is no authority for public health units to suspend children for this reason once they start attending the daycare centre. However, under the *Immunization of School Pupils Act*, the local medical officer of health may suspend students or cause their parents to be fined if they do not provide information on the student's immunization history. The 2014 Immunization System Review stated that the Ministry should consider "exploring the potential to develop one overall piece of legislation to address disease prevention and infection control in school and daycare settings."

We noted that neither the Ministry nor Public Health Ontario has information on whether parents of unimmunized children have been fined or the children suspended for not being vaccinated or having filed an exemption with the public health unit. The three public health units we visited had not fined any parents during the latest school year for which data was available. However, in compliance with the Act, all three had suspended unimmunized students: one (with more than 700 schools in the area) had suspended more than 6,600 students during the 2013/14 school year; another (with about 100 schools in the area) had suspended more than 580 students in the 2012/13 school year; and the third (with more than 50 schools in the area) had suspended fewer than five children in the 2012/13 school year. Without information on the number of children that have been suspended, as well as information on the outcome of these suspensions (for example, whether the child was subsequently immunized), the Ministry cannot evaluate the effectiveness of the actions taken by the public health units to ensure compliance with legislated immunization requirements.

Better Identification Needed of Areas with Low Coverage Rates

Both IRIS and its replacement, Panorama, provide information on the percentage of children with religious, conscience or medical exemptions. These exemptions are claimed relatively infrequently, totalling between 1% and 2% of children province-wide for all vaccines in 2012/13. However, these rates vary significantly among the public health units. Public Health Ontario noted for 2012/13 that the exemptions for measles, by public health unit, ranged from a low of less than 1% of children at one public health unit to a high of over 7% of children at another. Public Health Ontario has indicated that even public-health-unit-specific rates "likely conceal important variations in immunization exemptions across communities within public health units." For example, the public health unit with an average exemption rate of over 7% would have certain schools where exemption rates were much higher than 7%.

However, neither Public Health Ontario nor the Ministry has information on which geographic areas within the boundaries of each public health unit have low immunization coverage rates, even though such areas are at a higher risk of a disease outbreak. Instead, public health units are responsible for identifying those geographic areas within their boundaries that have low coverage rates, but these results are rarely reported to the Ministry or to Public Health Ontario.

Ministry policy requires licensed daycare centres to report annually to their local public health unit on the immunization status of children. The public health units are then to report information on daycare centres' immunization coverage rates to the Ministry. However, public health units do not report this information to the Ministry, and the Ministry does not request it. As a result, the Ministry is not aware of immunization coverage levels in daycare centres or even the number of immunized children in daycare centres. One of the three public health units we visited did not ensure that data was received for all children attending daycare centres, due to resource constraints. As a result, the public health unit would not be able to quickly assess which children are at risk in the event of an outbreak. Since IRIS could not produce a rotavirus coverage report, the public health units were not able to easily determine how many children were at increased risk of acquiring this disease, even though a number of rotavirus outbreaks occurred in daycare centres in the last couple of years (seven outbreaks occurred in daycare centres in 2013 and two in 2012). Panorama is expected to track rotavirus, but at the time of our audit, it was too early to assess how effectively it would do so.

Overall childhood immunization coverage rates are reported publicly in Public Health Ontario's annual coverage report. However, this public report does not include any coverage rates by public health unit or changes in coverage rates over time. Publicly disclosing this information would provide Ontarians with information on immunization coverage rates in their area and would help show whether coverage rates are increasing or decreasing, especially in areas with historically low coverage rates. Furthermore, the report does not provide any information on coverage or exemption rates by school or daycare centre. We calculated one public health unit's coverage rate in daycare centres and found that 15% of children did not have all required measles vaccinations, with one daycare centre as high as 42% (eight of the 19 children in the daycare centre) and another at 31% (18 of the 59 children in the daycare centre); such immunization coverage rates increased the risks of outbreaks at these daycare centres. If this information were publicly available, parents of children who cannot be immunized could choose to send their child to a daycare centre with a larger percentage of vaccinated children, where an outbreak would be less likely.

RECOMMENDATION 4

To help prevent outbreaks by ensuring that a sufficient percentage of Ontario's population, including children, is vaccinated, the Ministry of Health and Long-Term Care should— together with improving the completeness and accuracy of the data tracked by Panorama's immunization registry—do the following:

- harmonize the immunization requirements, including the vaccination, exemption and suspension processes, between schools and daycare centres by exploring the possibility of developing one overall piece of legislation to address disease prevention and infection control in daycares and schools, as recommended in the 2014 Immunization System Review;
- review options for ensuring that parents who exempt their children from vaccinations for non-medical reasons are aware of the risks and benefits of being immunized, such as by requiring a signed statement from a physician stating that the parent received information on the risks and benefits of the vaccine;
- ensure that public health units are taking appropriate actions to identify and address areas of the province, including daycare

centres and schools, with low immunization coverage rates; and

- publicly report immunization coverage rates by daycare and school so that parents of children who cannot be immunized can choose to send their child to a daycare centre or school with a larger percentage of vaccinated children, where an outbreak is less likely.

MINISTRY RESPONSE

The Ministry agrees that, to help prevent outbreaks, concerted efforts are needed across the system to improve vaccine uptake, especially in areas of low immunization coverage. Building on Panorama as an important tool for adhering to immunization data standards and for continually improving immunization data completeness and accuracy, the Ministry will:

- develop strategies to improve alignment and consistency of immunization processes across schools and daycare centres, including a review of existing legislation for schools and daycare centres to explore whether legislative changes are required to achieve this aim;
- consider opportunities to increase awareness and improve understanding among parents of the risks of exempting their children for non-medical reasons;
- work with public health units and Public Health Ontario to clarify and strengthen processes, strategies and requirements for identifying and addressing areas of low immunization coverage; and
- develop a plan for expanding public reporting of immunization coverage rates, building upon work already underway in some health unit areas, including consideration of public reporting of rates on a geographical basis (for example, for daycare centres and/or schools).

Processes Needed to Better Deal with Vaccine-Preventable Diseases Entering Canada

The Canadian Immunization Guide published by the Public Health Agency of Canada notes that over one-third of new immigrants are susceptible to measles, mumps or rubella. Further, immigrants from tropical countries are five to 10 times more susceptible to varicella (chicken pox). We noted that the Ontario government, in conjunction with the federal government, offers Settlement Services to help newcomers adjust to life in Canada. Immigrants receive information about immunization, such as requirements for children, but not about most immunizations recommended for adults. The 2014 Immunization System Review also noted that imported cases of vaccine-preventable diseases pose a threat. It indicated that the Ministry could work with groups that represent the major new-Canadian communities to promote awareness of the need for immunizations among those who visit friends and family in countries where such vaccine-preventable diseases are still endemic.

The Canadian Immunization Guide recommends that persons without proof of immunization be immunized. However, there is neither provincial nor federal monitoring to ensure that immigrants have an opportunity to receive required immunizations. New immigrants to the United States are required to have their vaccinations updated as part of their mandatory pre-arrival medical screening. Evidence-based clinical guidelines for immigrants and refugees posted online by the *Canadian Medical Association Journal* recommend that all adult immigrants without immunization records, and all children at vaccine-appropriate ages with missing or uncertain vaccination records, receive the vaccine for measles, mumps, rubella, diphtheria, tetanus and polio. Without these vaccinations, new immigrants are susceptible to vaccine-preventable diseases, and may import cases of vaccine-preventable diseases to Ontario.

RECOMMENDATION 5

To reduce the risks of importing cases of vaccine-preventable disease into Ontario, the Ministry of Health and Long-Term Care, in conjunction with provincial stakeholders, including the Ministry of Citizenship and Immigration, should explore, in discussions with the federal government, the possibility of providing immigrants the opportunity to receive required vaccinations before arriving in Ontario. This would include consistently providing information on immunization to new immigrants.

MINISTRY RESPONSE

The Ministry agrees that all Ontarians, including new immigrants entering the province, and especially children, should be immunized according to the *Publicly Funded Immunization Schedules for Ontario* and given access to the information, tools and supports needed to facilitate this process. As a component of the Immunization Program Renewal action plan currently under development, the Ministry will work with stakeholders, including the Ontario Ministry of Citizenship and Immigration, Public Health Ontario and the federal government, to review and update the Ministry's current risk-based approach for identifying priority groups for immunization and consider opportunities to further improve the immunization status of immigrants.

Improvements Needed to Promotion of Immunization

Physicians Require More Information and Effectiveness of Incentives Needs Review

One of the desired societal outcomes in the Ontario Public Health Standard on Vaccine Preventable Diseases is increasing the immunization knowledge of health-care providers. A 2013 Ministry-commissioned survey of physicians indicated that 40% of the 264 physicians responding required more information on the recommended timing of vaccinations and 61% needed more information on updates or clarification on changes to the schedule. The 2014 Immunization System Review noted that because Ontario's publicly funded immunization schedule changes over time, it may be difficult for parents and physicians to ensure that children are adequately immunized.

The survey of physicians also indicated that two-thirds wanted more information to help address parental concerns about common vaccine myths and misconceptions. In British Columbia, a reference guide for physicians presents both clinical and technical evidence on vaccines, and provides simple terms that physicians can use when providing explanations to patients.

To promote immunization, the Ministry pays bonuses to certain physicians—who work in certain groups or organizations with other physicians—who report that they have immunized a required minimum percentage of their patients in the last year. For example, a physician will receive $2,200 for immunizing 95% of the children in his or her practice; $1,100 for immunizing 90%; and $440 for immunizing 85%. The total of these bonuses paid in the 2013/14 fiscal year was almost $11 million. The Ministry does not verify the number of children immunized. In addition, over $6 million in bonuses was paid to physicians who provided the influenza vaccine to at least 60% of their patients. In New York State, the local health departments do not pay bonuses but do validate physicians' immunization rates. The Ministry has not evaluated whether its bonus payments to physicians are resulting in higher immunization rates in Ontario, nor has it considered other options for improving physicians' immunization rates.

Public Education about Benefits and Risks of Vaccination Not Co-ordinated

Another desired societal outcome in the Ontario Public Health Standard on Vaccine Preventable Diseases is increased public knowledge of immunization. The 2014 Immunization System Review notes growing hesitancy to have children vaccinated due to concerns about the safety and effectiveness of vaccines and a sense that vaccine-preventable diseases are no longer a threat. Since the 2010/11 fiscal year, over 80%, and in some years up to 100%, of the Ministry's immunization-related advertising funding went toward specifically promoting the influenza vaccine. Public health units also use some funding for local campaigns such as posters, fridge magnets and radio ads. The Ministry conducted several awareness campaigns about the HPV vaccine during the 2009/10 fiscal year (for example, online ads and magazines) because HPV had the lowest coverage rate for childhood vaccinations. Subsequently, the percentage of immunized Grade 8 girls increased from 55% in 2009/10 to 70% in 2011/12.

We noted that the Immunize British Columbia website offers residents a live webchat with a nurse to discuss vaccines and any associated concerns. One public health unit we visited indicated that this approach could be used in Ontario to effectively respond to parental concerns and reduce duplication of effort. While the Ministry's Telehealth phone line enables Ontarians to talk to a nurse about health-related matters, at the time of our audit, they could not provide information to address vaccine hesitancy issues and related parental concerns. We further noted that the state of Maine, after starting to target its public health campaigns to specific population groups, increased its child immunization rates by 40%, with minimal impact on overall cost.

A federal website maintained by the Public Health Agency of Canada advises Canadians travelling abroad of the recommended immunizations they should receive before travelling. Although many of these immunizations are not publicly funded, they can be essential to protecting the health of people travelling to countries where certain diseases are prevalent. The 2014 Immunization System Review also recognized the risk to travellers and noted that Ontario could assess ways to enhance and support the provision of travel vaccines, in order to reduce the threat posed by travellers bringing cases of measles and other vaccine-preventable diseases back to Ontario.

RECOMMENDATION 6

To ensure that Ontarians can easily access information on the risks and benefits of immunizations, the Ministry of Health and Long-Term care should:

- in conjunction with stakeholder such as the College of Physicians and Surgeons of Ontario, ensure that physicians have easy access to clinical and technical evidence on vaccines, and to materials that provide simple terms for physicians' use when providing explanations to patients;
- determine whether the bonus payments currently made to certain physicians are resulting in improved immunization rates in a cost-effective manner; and
- help reduce duplication of effort by public health units in addressing concerns locally, by considering a more co-ordinated approach to public education regarding all vaccines, including a website that provides clear and understandable information on vaccine hesitancy issues.

MINISTRY RESPONSE

The Ministry agrees with the importance of providing timely, relevant and reliable information about vaccines to both health-care providers and the public, including easily accessible information on the risks and benefits of immunization. Building on the current proactive efforts of public health units, the Ministry develops communication campaigns and educational material to increase knowledge and awareness regarding publicly funded immunization programs and to promote immunization as part of a healthy lifestyle. As part of the Immunization Program Renewal action plan currently under development, the Ministry will be expanding these efforts to further promote immunization and build public confidence including:

- working with Public Health Ontario, public health units, the College of Physicians and Surgeons of Ontario, the Ontario Medical Association, and other key stakeholders to ensure the development of comprehensive, user-friendly online resources for providers to support their efforts in communicating about vaccines with their patients;
- reviewing available evidence to determine if immunization bonus payments lead to improvements in immunization rates; and
- developing a comprehensive and co-ordinated immunization promotion strategy for the public, aligned with local promotion efforts of public health units, to provide the information, tools and supports the public needs—when and how they need them—to make informed immunization decisions.

Cost/Benefit Analysis Needed of Some Federally Recommended Vaccines

The process for approving publicly funded vaccines for use in Ontario starts with Health Canada, which approves which vaccines can be sold in Canada. The National Advisory Committee on Immunization (NACI) then issues advice, based on scientific evidence, on the use of the approved vaccines, such as which age group(s) should receive each vaccine. As well, the Canadian Immunization Committee (which has federal/provincial/territorial representation) provides advice on program implementation, such as cost-effectiveness considerations. In Ontario, the Provincial Infectious Diseases Advisory Committee—Immunization (PIDAC) advises Public Health Ontario, which in turn advises the Ministry, on which vaccines should be publicly funded and for whom. The Ministry then advises the government on which vaccines to fund and for whom.

In our *2003 Annual Report*, we noted several vaccines that were recommended by NACI but not publicly funded by the Ministry. Since then, the Ministry has increased the number of vaccines it funds for the general population, such that the number of diseases protected against increased from 10 to 16. At the time of our current audit, all but one of the vaccines recommended by NACI were being publicly funded (the exception being shingles), although four others (HPV, meningococcal, pertussis and varicella) were not funded for all persons, as recommended by NACI (as shown in **Appendix 3**).

The Ministry indicated that there is limited or no eligibility for these vaccines due to the cost of purchasing the vaccines and difficulties in assessing the cost-effectiveness of the vaccines in Ontario. However, PIDAC has indicated that the shingles vaccine is cost-effective for people 60 to 70 years old. At the time of our audit, the Ministry did not have sufficient analysis concluding on the cost-effectiveness of expanding eligibility for the other vaccines.

RECOMMENDATION 7

The Ministry of Health and Long-Term Care should implement a consistent process for examining the costs and benefits for Ontario of publicly funding vaccines recommended by the National Advisory Committee on Immunization. This process should include an examination of situations in which the vaccination costs are found to be less than the health-care costs of treating people who acquire a vaccine-preventable disease.

MINISTRY RESPONSE

The Ministry agrees with the importance of assessing cost-effectiveness as a key factor to inform government decision-making related to new or expanded publicly funded immunization programs. In developing its policy advice, the Ministry uses a nationally recommended analytic framework for immunization programs in Canada. This framework includes cost-effectiveness as a key consideration, in addition to factors such as scientific evidence, frequency and severity of disease in Ontario, acceptability including public and stakeholder perspectives, and equity, ethical and legal considerations.

The Ministry will further strengthen its cost-effectiveness analysis and advice to inform decision-making, including working with Public Health Ontario and other partners to develop a standardized approach for assessing cost-effectiveness, including the use of Ontario-specific data and modelling assumptions where possible.

Better Oversight of Influenza Immunization Program Needed

In 2000, Ontario introduced a Universal Influenza Immunization Program, under which anyone older than 6 months can receive the influenza (flu) vaccine at no cost. Unlike other vaccines, the flu vaccine lasts only about four to six months before the immune protection diminishes. Therefore, a new vaccine is offered each year. The Ministry estimates, based on net doses of the vaccine distributed (that is, total doses distributed less reported wastage), that about 30% of the Ontario population is immunized each year. In the 2013/14 flu season (from about September 2013 to March 2014), ministry data supported that about 3.1 million doses were administered, as shown in **Figure 6**.

The Ministry has not conducted any recent assessment of the overall impact of Ontario's universal influenza program on patients and their use of health-care resources.

Inconsistent Influenza Immunization Policies for Health-care Workers

In 2012, the Provincial Infectious Diseases Advisory Committee—Immunization (PIDAC) recommended that annual influenza vaccinations be a condition of employment for all Ontario health-care workers, including all hospital staff, primary-care physicians, long-term-care home workers and paramedics. The federal target is to have 80% of these workers immunized. However, Ministry documents indicate that, for the 2013/14 flu season, only about 70% of long-term-care home workers and 50% of hospital workers were immunized. There is an even higher federal target of 95% for workers who have extensive contact with patients at long-term-care-homes; however, the Ministry does not measure the immunization rate of these workers.

In 2013, the National Advisory Committee on Immunization (NACI) indicated that the influenza vaccination of health-care workers was an "essential component of standard of care" to protect patients from disease. British Columbia requires health-care workers who have not been immunized to wear a surgical mask during flu season. This change resulted in an increase in vaccination uptake from 40% to about 75% in acute-care hospitals. Saskatchewan plans to implement a similar policy for the 2014/15 flu season. Although not a requirement in Ontario, 13 Ontario hospitals (9% of hospitals) have implemented a policy requiring staff to either be vaccinated or wear a mask. According to the Ontario Hospital Association, nearly all of these hospitals experienced significant increases in their immunization rates. Therefore, such a requirement can be a good step in protecting vulnerable patients and reducing influenza outbreaks in hospitals.

RECOMMENDATION 8

If there is support for the efficacy of the influenza vaccine to reduce the transmission of influenza, to help reduce the risk of hospitalized patients contracting influenza, the Ministry of Health and Long-Term Care (Ministry) should consider requiring hospital staff to either be immunized or wear a mask, similar to the practice in British Columbia, and monitor compliance. This could possibly be established in agreements between the Ministry and Local Health Integration Networks (LHINs), and LHINs and hospitals.

MINISTRY RESPONSE

The Ministry agrees that health-care worker influenza immunization is an important component of minimizing the transmission of influenza within hospitals. The Ministry strongly encourages influenza immunization for all health-care workers, as well as stringent infection control practices, and is supportive of all health-care facilities with institutional "vaccine or mask" policies in place.

Building on the work of the Ministry's Health Care Worker Influenza Immunization Task Group, the Ministry will continue to work closely with stakeholders to improve health-care worker influenza immunization rates in Ontario. The Ministry will also work with Public Health Ontario, Health Quality Ontario and other key stakeholders to study the experience of hospitals with "vaccine or mask" policies, and will examine the challenges and opportunities of establishing a provincial "vaccine or mask" policy.

Improvements to Influenza Vaccine Program Needed

Reimbursement Rates to Pharmacists Need Review

Beginning in the 2012/13 flu season, Ontario pharmacists have been allowed to administer the flu vaccine and bill the Ministry $7.50 for each dose administered. (Before that, only pharmacies that employed nurses had been eligible to administer the flu vaccine.) Within one year, the number of pharmacies and number of doses administered had more than tripled—from about 600 pharmacies administering 250,000 doses in the 2012/13 flu season, to almost 2,000 pharmacies administering about 765,000 doses in the 2013/14 flu season. As a result, as shown in **Figure 4**, the proportion of flu vaccines administered by pharmacies has increased, with most of this increase due to fewer vaccines being administered by physicians.

In the 2013/14 fiscal year, the Ministry paid a total of $25 million to providers for administering the flu vaccine. This amount included $18 million paid to physicians, $6 million paid to pharmacies and $1 million paid to public health units. We noted that the rate at which the various health-care providers were reimbursed varied: $5 per dose for public health units and $7.50 per dose for pharmacies. Physicians paid on a per service basis receive $9.60 per dose if the flu vaccine is all the patient comes in for, and $4.50 per dose otherwise.

The Ministry had not performed an analysis to support the per-dose cost amount or the fees paid among the different health-care providers. The Ministry indicated that the reimbursement rate for pharmacies was set at $7.50 per dose to make it financially attractive for pharmacists to administer the flu vaccine.

Questionable Billings

The Ministry has different information systems for processing payments to health-care providers who administer the flu vaccine. In particular, physicians' claims for payment are processed through the Ontario Health Insurance Plan (OHIP) system, and pharmacists' claims for payment are processed through the Health Network System.

Figure 4: Percentage of Influenza Vaccine Administered Annually, by Type of Health-care Provider, 2011/12–2013/14*

Source of data: Ministry of Health and Long-Term Care

	2011/12 (%)	2012/13 (%)	2013/14 (%)
Physicians	77	73	63
Pharmacists	0	9	25
Public health units	13	10	6
Other, including workplaces	10	8	6

* No information is available on influenza vaccines administered by nurses who are employed by family health teams.

Both the OHIP system and the Health Network System are programmed to reject a claim for payment for immunizing a person more than once in the same day. However, there are no controls to prevent payments if a claim is made for multiple flu immunizations of the same person occurring on different days within a single flu season, even though such duplicate immunizations should rarely occur for anyone over the age of 9 years. The Ministry has not electronically linked the OHIP system and the Health Network System to determine if both physicians and pharmacists were billing the Ministry for administering the flu vaccine to the same patient. As a result, the two claims payment systems had no controls to identify duplicate billings between physicians and pharmacists.

The Ministry conducted a limited, informal review of the 2012/13 and 2013/14 flu billings by pharmacists and noted a small number of duplicate billings, but no broader review was conducted. As shown in **Figure 5**, we identified almost 21,000 instances during the 2013/14 flu season of the Ministry paying physicians and pharmacists for administering the flu vaccine more than once to the same patient over 9 years of age. Most of these questionable payments were made through the OHIP claims system. While our analysis indicated that most physicians billed once for each patient, about 11,000 of the questionable OHIP billings involved an individual physician billing more than once for the same patient. For example, one physician billed 18 times for the same patient over six months during the 2013/14 flu season.

The Ministry did not know whether individuals had been erroneously immunized more than once or whether these were provider billing errors, and it could not readily calculate the excess amounts paid to providers for these duplicate billings. The 21,000 duplicate billings are based on all flu immunization data at the Ministry. The flu vaccine is also administered by others, such as public health units and nurses employed by family health teams, but the Ministry does not obtain any detailed patient information on these immunizations. As a result, we could not assess the extent of any additional duplicate amounts paid by the Ministry. We also found that the minimal controls over pharmacy billings had resulted in pharmacists billing for the immunization of over 300 children under 5 years of age in the 2013/14 flu season, even though, under their agreement with the Ministry, pharmacies are not permitted to administer the flu vaccine to these children.

Flu Vaccines Unaccounted For

Although the Ministry had information on the majority of the flu vaccines administered, it did not have good information on what happens to all doses of the influenza vaccine that are purchased and distributed to health-care providers. As **Figure 6** shows, a significant number of doses remain unaccounted for. Based on information available at the Ministry, we noted that for the 2013/14 flu season, there were about 961,000 such doses.

The Ministry had no information on whether these doses were administered or wasted. However, the Ministry believes that these doses were likely administered by nurses who were employees of family health teams, or possibly through other arrangements, including from long-term-care homes and Community Care Access Centres.

Figure 5: Questionable Billings by Physicians and Pharmacists for Administering the Influenza Vaccine to Persons Over 9 Years of Age, 2013/14 Flu Season

Prepared by the Office of the Auditor General of Ontario

# of times physicians billed OHIP more than once for same patient	14,700
# of times pharmacies billed Ontario's Health Network System more than once for same patient	800
# of patients for whom billings were submitted at least once on both billing systems	5,400
Total # of extra times Ministry paid for flu vaccines	**20,900**

Figure 6: Unaccounted-for Doses of Influenza Vaccine

Source of data: Ministry of Health and Long-Term Care

	Flu Season		
	2011/12	**2012/13**	**2013/14**
Doses purchased by the Ministry	4,558,000	4,449,000	4,625,000
Less: Doses tracked by the Ministry:			
Doses administered to patients (by physicians, pharmacists, public health units and others)	(2,655,000)	(2,781,000)	(3,080,000)
Doses wasted	(923,000)	(414,000)	(584,000)
Doses not accounted for*	**980,000**	**1,254,000**	**961,000**

* The Ministry has no information on whether these vaccines were administered or wasted.

RECOMMENDATION 9

Given the rapidly growing interest on the part of pharmacists to administer the influenza vaccine, the Ministry of Health and Long-Term Care (Ministry) should assess the reasonableness of the rate paid to pharmacists to administer the vaccine so as to ensure that it is not excessive and is commensurate with pharmacists' costs and experience.

To help prevent health-care providers from administering a duplicate influenza vaccine to people who have already been vaccinated and to identify erroneous duplicate billings, the Ministry should:

- review and revise its claims payment systems to reject billings from health-care providers for patients who have already received their influenza vaccine; and
- periodically compare payments made to physicians for administering the influenza vaccine to those made to pharmacists, and follow up on duplicate payments made for the same patient.

MINISTRY RESPONSE

The Ministry agrees with the importance of continually improving the Universal Influenza Immunization Program (UIIP) to optimize the prevention and control of influenza in Ontario, including improvements in both reimbursement policies and data systems. The Ministry will review the reimbursement rate paid to pharmacists to determine if future changes are required.

The Ministry will consider additional measures to ensure appropriate billing, including potential changes to its current billing systems. To strengthen the current post-payment verification process for physician and pharmacist claims, the Ministry will review the potential of this verification process to provide information on patients who are recorded as accessing multiple influenza immunizations from physicians and pharmacists, as well as assess the causes for any duplicate, incorrect or inappropriate billings, and take appropriate action as part of the Ministry's broader risk/fraud management framework. The Ministry will also further enhance data quality by developing continuing educational material for providers to reinforce the importance of using the correct codes for all immunizations. In addition, the Ministry will work to close the data gap by identifying how many influenza immunizations were administered by nurses in Family Health Teams.

Better Tracking Needed of Adverse Events Following Immunization

Adverse events following immunization include any undesirable medical occurrence that happens after a person is immunized—for example, allergic reactions, convulsions, rash, pain, and redness and swelling that lasts for at least four days. In Ontario, adverse events include medical occurrences following a vaccination that are a possible, but not a confirmed, result of the vaccine. This approach is taken to ensure that potential adverse events are not missed. For vaccines administered in the 2013 calendar year, over 640 adverse events, including about 45 considered serious or medically significant (for example, anaphylaxis that is treated in an emergency department), were reported to Ontario's public health units primarily by patients or physicians following immunization.

Although health-care providers, including physicians and pharmacists, administering vaccines in Ontario are required to inform patients about the risks and benefits of immunizations, they may not always advise patients on potential adverse events that should be reported, such as allergic reactions, versus normal reactions that need not be reported, such as having a sore arm for a few days. Without such information, patients may report only very serious adverse events, such as those requiring a hospital visit. In fact, Public Health Ontario notes that less serious adverse events are likely underreported in Ontario. In the United States, health-care providers must provide standardized information to patients on which adverse events should be reported for each vaccination. Providing such standardized information can result in more consistent and complete reporting of adverse events.

For the 2013 calendar year, we noted that two public health units in the Greater Toronto Area had disproportionately low rates of adverse event reporting, with Toronto having 21% of the provincial population but only 9% of the adverse events, and York having 8% of the province's population but only 3% of the adverse events. Public Health Ontario had made a similar observation, with respect to adverse events reported in 2012, in its *Annual Report on Vaccine Safety in Ontario*. Public Health Ontario has not investigated the reasons for these variances. However, Public Health Ontario did contact the three public health units that reported no adverse events in 2013 to obtain their reasons for underreporting. Without complete adverse event reporting, it can be more challenging to identify potential issues and prevent future adverse events.

In Australia, most adverse event rates for publicly funded vaccines are calculated based on the number of vaccine doses administered. The Ministry does not track the number of doses administered of most vaccines. Therefore, like other Canadian provinces, Ontario uses the total population to calculate its adverse event rates, which is less meaningful because not everyone in the population is immunized. Public Health Ontario indicated that Ontario's 2012 adverse event rate was 4.7 per 100,000 people, which is half the national average. However, Public Health Ontario indicated that Ontario's lower adverse event rate is likely due to the under-reporting of adverse events.

Public health units enter adverse events into the Integrated Public Health Information System (iPHIS). Public Health Ontario can review iPHIS information, but indicated that there is insufficient adverse event data to allow for any meaningful trend analysis. We reviewed adverse event data and found problems with the data accuracy.

We also noted that iPHIS does not collect information identifying the health-care provider who administered the vaccine. Without this information, potential clusters of adverse events cannot be broken down in a way that identifies the health-care provider who administered the vaccine. Such information could help to quickly identify such clusters so that other patients who may not be effectively immunized can be identified and contacted.

RECOMMENDATION 10

To enable meaningful analysis of adverse events following immunization and to help prevent future adverse events, the Ministry of Health and Long-Term Care, in conjunction with Public Health Ontario, should:

- require health-care providers who administer vaccines to give patients standardized information about which adverse events should be reported;
- collect information on health-care providers who have administered vaccines associated with adverse events; and
- follow up on any unusual trends, including areas where adverse event rates look unusually low or high.

MINISTRY RESPONSE

Vaccine safety is a top priority for the Ministry. As such, the Ministry monitors and reports adverse events following immunization (AEFI) through a surveillance process led by Public Health Ontario. This process continually reviews and assesses the ongoing safety of publicly funded vaccines in Ontario, both existing and new. As part of this process, public health units investigate all reports of AEFIs from providers and the public and report them to Public Health Ontario, which conducts provincial surveillance and analysis and reports to the federal government to support national safety surveillance and monitoring efforts.

The Ministry agrees that health-care providers play a key role in this system to inform patients about potential AEFIs and how to report them, and will review options for best supporting providers in carrying out this role, including options for providing standardized information to patients. The Ministry will also work with Public Health Ontario to review opportunities to collect information on AEFIs according to various parameters, and will follow up on any unusual trends, including areas where adverse event rates are unexpectedly low or high. However, AEFI surveillance is focused on vaccine safety issues and the Ministry uses other ways to monitor provider performance.

Better Oversight of Vaccine Wastage Needed

In the 2012/13 fiscal year, Ontario purchased 34 different types of vaccines, at a total cost of $125 million, through the federal/provincial/territorial bulk purchasing program administered by Public Works and Government Services Canada. The Ontario Government Pharmacy provides these vaccines free of charge to all public health units as well as to health-care providers in Toronto. The public health units distribute the vaccines free of charge to health-care providers in other areas of the province.

Vaccine wastage in Ontario is primarily due to vaccines being spoiled, either because the vaccine expired before it could be used or the vaccine was not kept at the correct temperature. The Ontario Government Pharmacy reported vaccine wastage province-wide of $6.6 million in the 2013/14 fiscal year (up from $4.7 million in 2012/13, primarily due to an increase in influenza vaccine wastage). Ministry policy requires public health units to conduct annual inspections at health-care providers' premises to ensure that vaccines are used and stored in a way that minimizes vaccine wastage. Health-care providers and public health units return spoiled vaccines to the Ontario Government Pharmacy, which returns them either to the manufacturer or to a medical waste company for safe disposal.

Vaccine Order Quantities Not Always Monitored for Reasonableness

According to ministry policy, public health units are permitted to have on hand a maximum of two months' worth of vaccine inventory. This helps prevent vaccines from expiring before they can be used. However, the 2014 Immunization System

Review noted that the inventory system that the Ontario Government Pharmacy uses to track vaccines purchased and distributed is not electronically linked to the inventory systems used by the public health units. As a result, the Ontario Government Pharmacy did not have timely information on the amount of vaccines on hand at the public health units. Without such information, it cannot assess the reasonableness of public health units' vaccine shipment requests. Therefore, the Ontario Government Pharmacy almost always ships public health units the amount of vaccines they order, and does not review the reasonableness of the order quantities to ensure that each constitutes no more than two months' worth of vaccine. We noted that in 2012/13, the vaccine wastage in one public health unit was 26% of total wasted doses province-wide, although this public health unit had only 10% of Ontario's population. The Ministry indicated that Panorama's vaccine inventory tracking system, which was to be implemented by the fall of 2015, would be linked to the public health units and would therefore enable better monitoring of their vaccine orders for reasonableness in the future.

Ministry policy also states that all health-care providers should receive no more than one month's worth of vaccines at a time, regardless of whether the vaccine is distributed directly from the Ontario Government Pharmacy or through their public health unit, in order to help prevent vaccines from expiring before they can be used. However, although physicians are to indicate their vaccine inventory levels when ordering, the Ontario Government Pharmacy and the public health units do not have access to their inventory records. Therefore they do the following:

- The Ontario Government Pharmacy uses a guideline to assess the reasonableness of vaccine orders shipped directly to health-care providers in the Toronto area. This guideline considers the size of the health-care providers' practice—for example, the number of doctors in a practice and the types of doctors, including whether they are pediatricians or family doctors. Orders that are in excess of a reasonable quantity may be reduced if health-care providers do not have a reasonable explanation for why the health-care providers are ordering more vaccines.
- Outside the Toronto area, health-care providers receive their vaccines from the public health units. The two non-Toronto public health units we visited use their judgment to determine whether shipments to health-care providers should be reduced—for example, if they think a provider's order is excessive or if a provider has a history of vaccines expiring before they are used.

Consequently, while assessments by the Ontario Government Pharmacy provide some assurance of the reasonableness of Toronto health-care provider vaccine order quantities, there is very little such assurance for amounts ordered by other health-care providers.

The Ministry indicated that although Panorama's inventory module, expected to be implemented at all public health units by fall 2015, will track vaccines distributed to health-care providers, there are no plans to track the vaccine inventory levels at physicians' offices. Without such information, public health units will continue to have difficulty assessing whether physicians are ordering significantly more vaccines than necessary. Furthermore, if immunization information was more consistently entered into the registry at the time vaccinations were administered, public health units could evaluate the reasonableness of order quantities based on the number of vaccines actually administered by each physician's office and pharmacy in the previous year. This could help reduce excessive order quantities and the expiry of vaccines before they can be used by the physicians and pharmacies that ordered them.

We noted that some jurisdictions require health-care providers to supply information that can be used to review the reasonableness of the providers' vaccine order. For example, in New York State, physicians who receive publicly funded vaccines must provide their current vaccine inventory level when submitting a vaccine order. Further, if the order seems excessive, the physician will be asked to provide information on the number of vaccines administered. Obtaining and using such information to review the reasonableness of a provider's vaccine order quantity can help reduce excess inventory and expired vaccines.

Better Storage Needed at Health-care Providers' Premises to Maintain Vaccine Potency

Ministry policy requires vaccines to be stored between 2°C and 8°C to protect their potency. Public heath units and health-care providers are responsible for ensuring that vaccines stored in their offices are kept within these temperatures. This practice is referred to as maintaining the cold chain. Ministry cold-chain data for 2013 indicated that about 380,000 vaccine doses (or under 5% of total doses distributed) were exposed to cold-chain breaks at about 2,300 health-care provider sites. Thirty-nine percent of these incidents were due to power failures; 22% to human error; and 16% to refrigerator or thermometer malfunctions. The remaining 23% were classified as having had "other" causes. Public health units, which are responsible for evaluating cold-chain incidents, determined that 34% of these, or 130,000 doses costing almost $2 million, were spoiled. To minimize cold-chain breaks, reliable refrigeration (such as that offered by refrigerators built specifically to store vaccines) and accurate thermometer readings are needed.

Since reliable refrigeration is key to the cold-chain process, the Public Health Agency of Canada recommended in 2007 that bar-style fridges not be used for vaccine storage, because they were the leading cause of cold-chain breaks. As well, in 2012, the U.S. Centers for Disease Control and Prevention recommended discontinuing the use of bar-style fridges for vaccine storage. Ministry policy also prohibits public health units from using bar fridges, noting that they "are ineffective at maintaining the required temperatures." However, Ministry policy still allows health-care providers to use bar fridges. In fact, the Ministry indicated that most health-care providers actually use bar fridges. At the two public health units visited that tracked fridge type, over 50% of health-care providers in these regions used bar fridges. The use of bar-style fridges increases the risk that vaccines will not be maintained at the correct temperature and will lose their potency. In Manitoba, bar fridges are not recommended. Rather, fridges built to store vaccines (called purpose built fridges) are recommended, and full-sized fridges (such as those used in homes) are acceptable but not recommended.

An accurate fridge thermometer will detect temperature variations, and helps ensure that vaccines are kept within the required temperature range. For example, a thermometer can be used to detect temperature changes resulting from a power outage that occurs when the health-care provider's staff are not at the premises. Ministry policy allows the use of various thermometers, including the type that just record the minimum and maximum temperature a fridge has been at since the thermometer was last reset. However, such "min-max" thermometers do not indicate the length of time a fridge was at a particular temperature or the last time the thermometer was reset. As a result, the use of min-max thermometers does not provide either health-care providers or public health unit inspectors with sufficient information to evaluate whether vaccines have spoiled. If there is any indication that the vaccines *might* have been spoiled, they must be disposed of. This can lead to unspoiled vaccines being disposed of unnecessarily. One public health unit indicated that many vaccines could be saved if more health-care providers used thermometers that logged temperatures at periodic intervals.

Without more detailed information about fridge temperatures, it is difficult to ensure that all cold-chain breaks are identified and that only unusable vaccines are discarded. Only two of the six public health units we contacted about cold-chain procedures tracked the type of thermometer used by health-care providers. Their records indicated that over 90% of health-care providers used min-max thermometers, and only 2% used thermometers that provided an alert if the fridge temperature varied outside the recommended range. The 2014 Immunization System Review also identified this issue and recommended that health-care providers use automated electronic fridge-monitoring systems that would alert their public health unit, as well as the health-care providers themselves, of any cold-chain incidents.

Public Health Unit Inspection Process Needs Review

Ministry policy requires public health units to perform an annual inspection of health-care providers to determine whether they are in compliance with vaccine storage and handling requirements. This includes ensuring that providers maintain vaccines at required temperatures such that they remain potent and that providers maintain reasonable inventory levels so that vaccines do not expire before use. The public health units use Ministry checklists to complete this inspection.

The public health units inspect fridges used to store vaccines at all sites (that is, physician's offices, pharmacies, and long-term care homes) to ensure that vaccines maintain their potency by being kept at the correct temperature. Of the six public health units on which we performed audit work:

- In 2013, all had inspected at least 95% of sites that were storing vaccines. Further, at the five public health units that tracked the overall results, most providers had passed the inspection.
- Practices varied with respect to inspections. One did mostly unannounced inspections and five did announced inspections. Despite one public health unit doing unannounced inspections, three of the public health units that did only announced inspections indicated that the unannounced approach was impractical, because health-care practitioners' staff needed to be available at the time of the inspection. The public health unit that conducted unannounced inspections indicated that the unannounced inspection approach prevents health-care providers from preparing for the inspection—for example, by defrosting the fridge or by filling in temperatures where manual record-keeping processes were incomplete.

The public health units' inspection also involves assessing whether a health-care provider has more than one month's worth of vaccine inventory on hand. Although the public health units do not have information on vaccines used by health-care providers each month, making it difficult for them to determine whether more than one month's worth of inventory is on hand, we noted that 40% of the inspection reports we reviewed had identified excessive or expired vaccines. Moreover, five of the six public health units we spoke to expressed concerns regarding excess and expired inventory at health-care providers. However, none of the six public health units tracked the total excessive or expired inventory found during inspections as this was not a requirement of the ministry-provided inspection checklist.

Of the six public health units we tested, all forwarded inspection reports to the Ministry. Even though the Ministry requires these reports to be submitted, the Ministry simply stores almost all of these reports, sometimes without opening them. The Ministry indicated that it would use the report if a public health unit contacted it about a related issue. Further, there was no requirement for public health units to report summarized inspection results highlighting issues requiring follow-up to the Ministry, to enable the Ministry to easily determine whether public health units were conducting follow-up inspections.

In the 2013 calendar year, only 5% of cold-chain breaks were identified during inspections by public health units. The rest of the cold-chain breaks were identified primarily by health-care providers. Given the time required for public health unit staff to inspect each health-care provider every year, in our view, these inspections could be focused on health-care providers with a higher risk of problems. For example, health-care providers that fail frequently or have hired new staff responsible for cold-chain storage could be considered high risk. The 2014 Immunization System Review also suggested making inspections risk-based rather than performing an annual inspection at every health-care provider site.

Minimal Analysis of Wastage

Within Toronto, health-care providers report vaccine wastage to the Ontario Government Pharmacy. Outside Toronto, health-care providers report vaccine wastage to the public health units, which in turn report the wastage information to the Ontario Government Pharmacy. The information reported includes the quantity and type of vaccine wasted, as well as the reason for the wastage (for example, expired, or spoiled due to temperature variances). In the 2013/14 fiscal year, the Ontario Government Pharmacy reported that total vaccine wastage province-wide was $6.6 million ($4.7 million in 2012/13).

In our *2003 Annual Report*, we noted that the reporting of vaccine wastage to the Ontario Government Pharmacy was often inaccurate, and we recommended the Ministry obtain accurate and complete information about vaccine wastage and take action to reduce wastage. At the time of our current audit, we noted that the vaccine wastage data being reported was still not complete. For example, the information tracked by the Ontario Government Pharmacy did not include unused doses in multi-dose vials or any wastage otherwise unreported by health-care providers.

According to ministry policy, vaccine wastage within each public health unit should represent no more than 5% of the vaccines distributed to that unit annually. For the 2013/14 fiscal year, the Ontario Government Pharmacy reported that total vaccine wastage province-wide was about 6% (4% in 2012/13) of the total dollar value of vaccines distributed to health-care providers. However, although the Ontario Government Pharmacy calculated the total wastage overall, it had not calculated wastage by public health unit, since it did not analyze information in this manner. Therefore, it did not know which public health units had wastage in excess of the Ministry's policy of 5%. Based on the most recent information available at the time of our audit, we noted that for seven of the public health units, vaccine wastage exceeded 10% of the doses distributed to their public health unit in 2012/13, with two having wastage exceeding 20% of the doses distributed to their public health unit. The Ministry did not know the reason for the high wastage.

According to the Ontario Government Pharmacy, in the 2012/13 fiscal year, about 65% (about $3 million) of total vaccine wastage was due to expired vaccines and another 21% (about $1 million) was due to cold-chain breaks. Further, another 12% (about $600,000) had "No reason given" (the Ontario Government Pharmacy had not followed up on these). Although the Ontario Government Pharmacy tracks the location of cold-chain breaks, it does not track the locations where vaccines expire. As a result, the Ministry did not know which physicians, pharmacies, long-term-care homes and public health units had the most expired vaccines. Without this information, the Ministry is not able to follow up with health-care providers to determine the cause of their unexpectedly high wastage and how best to reduce this wastage in the future. Further, the Ministry has no assurance all wastage is reported. If immunizations are entered directly into the immunization registry by health-care providers at the time the patient is vaccinated, the Ministry will more readily be able to account for all vaccines provided to physicians, including determining when they do not report all wasted vaccines.

The six public health units we reviewed send letters to health-care providers if they suspect patients may have received a spoiled vaccine (that is, either expired or not maintained at the correct temperature). The letter reminds the health-care provider to determine whether any patients are not immune to a disease because they received vaccines that may have lost their potency. However, the Ministry indicated that it is not the public health units' responsibility to confirm whether physicians actually check their records or inform patients that they may not have been adequately immunized; this is up to the physicians.

Public health units send out a separate letter to health-care providers noting the retail value of the vaccines that spoiled because they weren't kept at the correct temperature, but do not require repayment, even if the health-care provider has frequent cold-chain breaks. However, only one of the six public health units we reviewed sent out similar letters to inform physicians about the value of vaccines that spoil due to excess inventory, despite expired vaccines causing a significantly larger portion of vaccine wastage than cold-chain breaks. The Ministry does not have any information on the total number of letters sent by public health units, or if these letters changed provider behaviour.

Although vaccines distributed by the Ontario Government Pharmacy are 100% funded by the Ministry, no disincentives have been established for public health units or health-care providers to minimize vaccine wastage due to over-ordering and associated vaccine expiry. For example, neither public health units nor health-care providers incur any costs or penalties with respect to their vaccine wastage. The 2014 Immunization System Review also recommended holding health-care providers accountable for wastage. One public health unit we spoke to suggested charging health-care providers if they waste vaccine.

RECOMMENDATION 11

To minimize vaccine wastage and maintain vaccine potency, the Ministry of Health and Long-Term Care should:

- implement processes aimed at ensuring that the volume of vaccines ordered by and distributed at no cost to health-care providers is reasonable (for example, by monitoring information on their inventory levels through the new Panorama system);
- revise the minimum standards for the types of fridges and thermometers used by health-care providers in vaccine storage, such as by prohibiting the use of bar fridges and min-max thermometers, which are less reliable at maintaining the correct vaccine temperature or providing information about the length of time fridge temperatures were outside an acceptable range needed to maintain vaccine potency;
- in conjunction with the public health units, obtain and review information on vaccine wastage by each health-care provider, and follow up on providers with higher wastage levels; and
- review whether the process followed by public health units to inspect health-care providers' offices would be more cost-effective if it used a risk-based approach, such that providers that have higher wastage levels—whether because vaccines are not being kept at the correct temperature or because vaccines are expiring before they can be used—receive more focus, and require some inspections to be performed on an unannounced basis.

MINISTRY RESPONSE

The Ministry agrees that minimizing vaccine wastage and maintaining vaccine potency are important components of Ontario's publicly funded immunization program. As part of Ontario's cold-chain inspection process, public health units employ a customer service approach in providing education and increasing awareness regarding proper vaccine storage and handling practices. Building on the current strengths of this initiative, and as part of the Immunization Program Renewal action plan currently under development by the Ministry, the Ministry will:

- develop tools, supports and processes to further strengthen the Ministry's existing vaccine order-monitoring practices, leveraging the enhanced standardized inventory information that will be available as part of the Inventory Management component of Panorama with its alerting capability (for example, automating historical ordering and wastage reports, and instituting auto flags for intervention, such as vaccine-ordering discrepancies);
- work with stakeholders such as the Ontario Medical Association and Ontario Pharmacists Association to consider opportunities for reducing vaccine wastage, including a review of minimum vaccine storage and handling requirements pertaining to vaccine refrigerators and min-max thermometers; and
- review opportunities to incorporate a risk-based approach within Ontario's cold-chain inspection process, with more emphasis on unannounced inspections and improved processes for identifying and working with providers experiencing higher levels of vaccine wastage.

Appendix 1—Government Players and Selected Key Responsibilities for Ontario's Immunization Program

Prepared by the Office of the Auditor General of Ontario

Organization/Entity	Key Responsibilities
Federal	
Health Canada	• Approves vaccines for use
National Advisory Committee on Immunization (NACI)	• Provides scientific advice and makes recommendations on use of vaccines approved by Health Canada
Canadian Immunization Committee	• Publishes national advice on immunization program implementation
Public Works and Government Services Canada	• Co-ordinates bulk purchasing program under which provinces and territories (in Ontario, the Ministry's Ontario Government Pharmacy) order their vaccines
Provincial	
Chief Medical Officer of Health	• Reports to the Legislative Assembly on risks to public health in Ontario, including vaccine-preventable diseases • As a senior official of the Ministry, reports to the Deputy Minister of Health and Long-Term Care on Ontario's immunization program
Ministry of Health and Long-Term Care (Ministry)	• Oversees Ontario's immunization program, including developing policy • Advises the government on which vaccines to publicly fund and for whom
Public Health Ontario	• Provides information to the Ministry and the public on, among other things, immunization coverage rates and adverse events • Through the Provincial Infectious Diseases Advisory Committee—Immunization (PIDAC), advises the Ministry on which vaccines should be funded and who should be vaccinated
Municipal	
36 Public Health Units	• Each, led by a local medical officer of health, administers immunization programs in its geographic area • Each reports to its own board of health
36 Boards of Health	• Each oversees its own Public Health Unit and is comprised in whole or in part of municipal representatives

Appendix 2—Comparison of Vaccination Schedules among Canadian Provinces, 2014

Prepared by Office of the Auditor General of Ontario, from provincial immunization schedules

The National Advisory Committee on Immunization (NACI) recommends routine childhood vaccinations for more than a dozen diseases and infections. No province offers more publicly funded vaccinations than NACI recommends, although some offer fewer. All 10 provinces have similar publicly funded schedules for nine vaccinations: diphtheria, Hib (haemophilus influenzae type b), measles, mumps, pertussis (whooping cough), pneumococcal disease, polio, rubella and tetanus. Provincial schedules vary for the five vaccinations shown below.

	Hepatitis B	Human Papillomavirus (HPV)	Meningococcal	Rotavirus	Varicella (Chicken Pox)
NACI Recommendations	All children, regardless of age	Persons from 9–26 years old	1st dose: • Children from 12 months–5 years old • Consider for children 5–11 years old 2nd dose: • Persons from 12–24 years old Use a 3-dose schedule beginning at 2 months of age	• Infants from 6 weeks–8 months	• 2 doses at least 6 weeks apart: 12 months–12 years or • 2 doses: 13–17 year-olds who have not had chicken pox
Newfoundland and Labrador	Grade 6	Grade 6 girls	• 1st dose: At age 1 • 2nd dose: Grade 4	• Not publicly funded	• One dose at age 1
Prince Edward Island	Before age 1	Grade 6 girls and boys	• 1st dose: At age 1 • 2nd dose: Grade 9	• Before age 1	• 1st dose: At age 1 • 2nd dose: At age 18 months
Nova Scotia	Grade 7	Grade 7 girls	• 1st dose: At age 1 • 2nd dose: Grade 7	• Not publicly funded	• 1st dose: At age 1 • 2nd dose: At ages 4–6
New Brunswick	Before age 1	Grade 7 girls	• 1st dose: At age 1 • 2nd dose: Grade 9	• Not publicly funded	• 1st dose: At age 1 • 2nd dose: At age 18 months
Quebec	Grade 4	Grade 4 girls	• 1st dose: At age 1 • 2nd dose: Grade 9	• Before age 1	• One dose at age 1
Ontario	Grade 7	Grade 8 girls	• 1st dose: At age 1 • 2nd dose: Grade 7	• Before age 1	• 1st dose: Before age 2 • 2nd dose: At ages 4–6
Manitoba	Grade 4	Grade 6 girls	• 1st dose: At age 1 • 2nd dose: Grade 4	• Before age 1	• 1st dose: At age 1 • 2nd dose: At ages 4–6
Saskatchewan	Grade 6	Grade 6 girls	• 1st dose: At age 1 • 2nd dose: Grade 6	• Before age 1	• 1st dose: At age 1 • 2nd dose: At age 18 months
Alberta	Grade 5	Grade 5 girls (and boys as of fall 2014)	• 1st dose: At 2 months • 2nd dose: At 4 months • 3rd dose: At age 1 • 4th dose: Grade 9	• Not publicly funded	• 1st dose: At age 1 • 2nd dose: At ages 4–6
British Columbia	Before age 1	Grade 6 girls	• 1st dose: At 2 months • 2nd dose: At age 1 • 3rd dose: Grade 6	• Before age 1	• 1st dose: At age 1 • 2nd dose: At age 4

Appendix 3—Vaccines Not Funded in Ontario in Accordance with Recommendations from the National Advisory Committee on Immunization (NACI)

Prepared by the Office of the Auditor General of Ontario

Shingles	NACI recommends the shingles vaccine for those aged 60 and older, but the vaccine is not publicly funded in Ontario or in any other Canadian province. Shingles is caused by a re-activation of the varicella zoster (chicken pox) virus. There is about a 30% chance that a person will develop shingles during his or her lifetime, usually after age 60. Although the number of cases of shingles in Ontario is not tracked, the Canadian Immunization Committee indicates that cases are increasing nationally, partly due to the aging population. Further, the Canadian Immunization Committee estimates that the Canadian hospitalization costs for shingles total over $67 million annually. In 2013, the Canadian Immunization Committee indicated that the shingles vaccine is cost-effective for people aged 60 and older. Further, in 2013, PIDAC proposed publicly funding the shingles vaccine for older adults in various age groups. Notwithstanding PIDAC's proposals, the Ministry indicated that the shingles vaccine has not been publicly funded because the current vaccine must be kept in a freezer, and it is not practical to expect physicians to have freezers in their offices. A fridge-stable vaccine became available for sale in Ontario in spring 2014.
HPV	NACI recommends the HPV vaccine for everyone aged 9 through 26, but the vaccine is publicly funded in Ontario only for girls in Grade 8. PIDAC recommended that only girls and high-risk males be eligible for the vaccine, but did not provide an explanation for the variation from NACI's recommendation. We noted that other jurisdictions recently began publicly funding the HPV vaccine for boys in addition to girls. For example, Australia started publicly funding the HPV vaccine for boys in 2013, Prince Edward Island in the 2013/14 school year, and Alberta in the 2014/15 school year. A 2013 study by Public Health Ontario indicated that publicly funding the HPV vaccine for boys would be too expensive, because the health benefits and related cost savings were less for boys compared to girls. However, Public Health Ontario also noted that further research was needed to determine if immunizing boys against HPV was cost-effective overall. Two of the public-health units we visited indicated that immunizing boys against HPV should be a priority, because doing so will reduce the spread of the infection and therefore reduce related diseases. PIDAC also recommended conducting the HPV vaccination program in Grade 7 rather than in Grade 8, because it would be more economical, in terms of nursing time and administration costs, to give this vaccine at the same time as the other two vaccines given in Grade 7. The Ministry's HPV working group did not agree: it was concerned that a third vaccine would be too many needles for Grade 7 students. As a result, the HPV vaccine continues to be administered only in Grade 8.
Meningococcal	NACI recommends the meningococcal vaccine for adolescents, generally at age 12, while the Canadian Immunization Guide further recommends the vaccine for young adults up to 24 years of age. The vaccine is publicly funded in Ontario for Grade 7 students. The Ministry has not quantified how many people are at risk of developing this vaccine-preventable disease because they have not been vaccinated.

Pertussis (whooping cough)	NACI recommends the pertussis vaccine for all adults, but the vaccine is not publicly funded in Ontario for those aged 65 and older. The Ministry indicated that the NACI recommendation has been under review since 2011. However, the Ministry had not yet analyzed whether it would be cost-effective to increase eligibility for pertussis to all adults—for example, by considering the potential health-care costs of treating pertussis in children under 6 months old who may have acquired pertussis from an older adult. The Canadian Immunization Guide (published by the Public Health Agency of Canada) indicates that adults often have waning immunity for some vaccine-preventable diseases, such as pertussis. Therefore it recommends immunizing adults who have not been immunized since childhood and who are in contact with infants. Somewhat similarly, PIDAC recommended in 2011, and again in 2012, that eligibility for the pertussis vaccine be broadened to include all adults due to concerns about waning immunity.
Varicella (chicken pox)	NACI recommends two doses of the varicella vaccine for individuals between 12 months and 49 years old who have not previously had varicella (and are therefore susceptible to the disease). Due to the Ministry's position that varicella is mainly a childhood disease, as well as other ministry funding priorities, the vaccine is publicly funded in Ontario only for children born in or after the year 2000. Despite the fact that varicella tends to be more dangerous as people age, individuals born before 2000 who are still susceptible to varicella because they have not previously had the disease are not eligible to receive the vaccine. People may choose to pay for this vaccine, and two doses are recommended for adequate protection. The Ministry has not quantified how many people are at risk of contracting this vaccine-preventable disease because they have not been vaccinated.

Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Adverse event following immunization—An undesirable medical occurrence that happens after a person is immunized, including an occurrence that may not be directly caused by the vaccine. Adverse events include allergic reactions, convulsions, rash, pain, or redness and swelling that lasts for at least four days.

Board of health—The governing body for a public health unit. The medical officer of health of each public health unit reports to a board of health that consists primarily of members appointed by the local municipality. The boards of health are responsible for, among other things, ensuring the provision of the publicly funded vaccine-preventable diseases program within their respective public health units. The boards report primarily to their local municipality; they also report information on certain performance indicators to the Ministry, in accordance with their accountability agreements with the Ministry.

Chicken pox—Also called varicella. A disease that usually results in flu-like symptoms, fever, and a rash with blisters lasting one week before forming scabs. Chicken pox can be serious, especially in babies, susceptible adults (for example, those who have not had the disease previously) and people with weakened immune systems. Complications include bacterial skin infections and/or necrotizing fasciitis ("flesh-eating disease") and pneumonia. Following the initial illness, the virus may be reactivated later in life as shingles.

Chief Medical Officer of Health—The Chief Medical Officer of Health is responsible for dealing with risks to public health in Ontario, and reports to the Minister of Health and Long-Term Care on issues such as which vaccines should be publicly funded in Ontario and any concerns regarding immunization coverage rates across the province.

Cold chain—The process of ensuring that vaccines are continuously stored within the temperature range (2°C to 8°C) required to ensure that the vaccine remains potent.

Cold-chain break—A period of time during which a vaccine is not stored within the temperature range required to ensure that the vaccine remains potent.

Diphtheria—An upper respiratory system disease. Complications include suffocation, paralysis, heart failure, coma and death. One in 10 people who contract diphtheria die from it.

Haemophilus influenzae type b (Hib)—A type of bacteria that may result in respiratory tract infections leading to pneumonia, bronchitis, and ear, eye and sinus infections, or more serious conditions such as meningitis and bone infections. Long-term effects of meningitis can include permanent hearing loss, paralysis, seizures, brain damage and death.

Hepatitis B—A disease that can cause such symptoms as abdominal pain, nausea, vomiting and jaundice for weeks or months. A small number of people who contract hepatitis B become infected for life. The fatality rate is about 1%.

Herd immunity level—The percentage of a population that must be vaccinated to reduce or stop the spread of an infectious disease within that population.

Human papillomavirus (HPV)—An infectious disease that can result in cancers related to the cervix, vagina and vulva, anus, oral cavity (certain parts of the mouth), or oropharynx (back of the throat) in females and in cancers related to the penis, anus, oral cavity, or oropharynx in males.

Immunization Records Information System (IRIS)—The immunization registry software used by public health units to track the immunization records for most Ontario school children and some children enrolled in daycare centres. It will be replaced by a new immunization registry (one component of Panorama) that is expected to be fully implemented by March 2016.

Immunization registry—A database in which all immunizations administered are recorded and tracked; can be used to identify individuals who are due to be immunized as well as, in the event of an outbreak, those who were not immunized.

Immunization schedule—The listing of the vaccines that are publicly funded, who is eligible to receive the vaccines and the timing of when the vaccines should be administered.

Influenza (flu)—A respiratory illness that lowers the body's ability to fight other infections. It can lead to bacterial infections, such as pneumonia, and in some cases death, especially in vulnerable people, such as the elderly, children, pregnant women, and people with chronic medical conditions.

Integrated Public Health Information System (iPHIS)—The federally based system that Ontario public health units use to report all instances of reportable communicable diseases (including most vaccine-preventable diseases) and adverse events following immunization.

Measles—A disease characterized by a red, blotchy rash that begins on the face. Complications include diarrhea, pneumonia and infections of the brain. In developed countries, two to three cases per 1,000 result in death.

Medical officer of health—The person responsible for a public health unit's vaccine-preventable disease program and other public health programs. In most cases, staff at the public health unit report to the medical officer of health, who in turn reports to a board of health.

Meningococcal disease—An invasive disease that often results in meningitis and/or septicemia (life-threatening blood infection). Symptoms include fever, drowsiness, irritability, intense headache, vomiting, stiff neck and rash. Severe cases can result in delirium and coma and, if untreated, toxic shock and death.

Mumps—A disease that brings about inflammation of the salivary glands in 40% of those who contract it. Mumps can cause viral meningitis and is associated with hearing loss and inflammation of the pancreas.

Panorama—A new public health system being implemented by the Ministry that includes a new immunization registry and vaccine inventory tracking system, which are expected to be fully implemented in all Ontario public health units by March 2016. The system is expected to be expanded to include outbreak management and disease investigation capabilities. Panorama is also being implemented by a number of other Canadian provinces.

Pertussis—Also called whooping cough. A disease that is characterized by fever, vomiting and coughing attacks. Complications include pneumonia, seizures, brain damage and death. In children under the age of 1, death is estimated to occur in one out of every 200 cases.

Pneumococcal disease—A bacterial disease that can cause four serious infections: meningitis (brain infection), bacteremia (bloodstream infection), pneumonia (lung infection), and otitis media (middle-ear infection). Complications from pneumococcal infections can cause serious harm to children and older adults, including brain damage and death.

Poliomyelitis (polio)—A disease that invades the nervous system and can cause paralysis or death if the breathing muscles are affected. There is no cure for polio. Due to vaccinations, polio is considered eradicated from many parts of the world, including Canada.

Public Health Ontario (previously called the Ontario Agency for Health Protection and Promotion)—A provincial government agency that is responsible for, among other things, monitoring immunization coverage rates and adverse events following immunization.

Public health unit—Any of the 36 local organizations across Ontario that are responsible for, among other things, administering the Ministry's publicly funded immunization program in their respective geographic areas. Each public health unit is led by a local medical officer of health and governed by a board of health.

Rotavirus—The most common cause of severe gastroenteritis. Symptoms include diarrhea, nausea and vomiting. In infants and young children, it is responsible for more than 500,000 deaths each year worldwide.

Rubella—Also called German measles. A disease that results in a rash, joint pain, abnormal lymph nodes and low-grade fever. Serious complications are rare. Rubella infection during pregnancy poses a risk for serious birth defects in surviving offspring.

Shingles—Also called herpes zoster. An infection that occurs when the varicella zoster virus (which causes chicken pox) is reactivated. It often causes pain and itching on one side of the face or body, followed by a painful rash. Shingles can affect the eyes, including a loss of vision. Other symptoms can include fever, headache, chills and upset stomach.

Tetanus—Also called lock jaw. A disease that can result in painful muscle contractions and/or stiffness in the jaw, neck, arms, legs and stomach. Muscle spasms can be so intense that bones may break. Complications include breathing problems, lung infections, coma and death. Death rates are highest in infants and the elderly.

Varicella—See chicken pox.

Chapter 3

Section

3.05 Infrastructure Ontario—Alternative Financing and Procurement

Background

Alternative Financing and Procurement

Alternative Financing and Procurement (AFP) is the name given to the form of public-private partnerships (P3s) frequently used in Ontario. Contractual agreements between the government and the private sector define AFP arrangements. Under these agreements, private-sector businesses deliver large infrastructure projects and provide other services, and the various partners share the responsibilities and business risks.

P3s began appearing on the provincial landscape in 2001, when the then Minister of Finance announced that public-private partnerships would have to be seriously considered before the Ontario government would commit any funding for new hospitals that were needed at that time. In November 2001, the government approved the development of two new hospitals (in Brampton and Ottawa) using the P3 approach.

Under the AFP model, project sponsors in the public sector (provincial ministries, agencies or broader-public-sector entities such as hospitals and colleges) establish the scope and purpose of the project, while construction of the project is financed and carried out by the private sector. Payments for most projects are made only when the projects are substantially completed. In some cases, the private sector will also be responsible for the maintenance and/or operation of a project for 30 years after its completion.

Infrastructure Ontario

The government's 2005 infrastructure investment plan, *Renew Ontario 2005-2010*, noted that Ontario's record for managing and financing large-scale infrastructure projects needed improvement. The plan noted that, in the past, substantial cost overruns and late delivery of some projects did not give taxpayers the best value for their investment. The 2005 plan saw the AFP model as being able to take advantage of private-sector capital, expertise and efficiencies to deliver projects on time and on budget.

The Ontario Infrastructure and Lands Corporation—commonly referred to as Infrastructure Ontario—was incorporated in 2005 under the *Business Corporations Act*, initially to deliver large-scale, complex infrastructure projects using the AFP model. However, as a result of amalgamations with other government agencies in 2006 and in 2011, Infrastructure Ontario now has three other main lines of business in addition to AFP Project Delivery: Real Estate and Land Management, Lending and Commercial Projects.

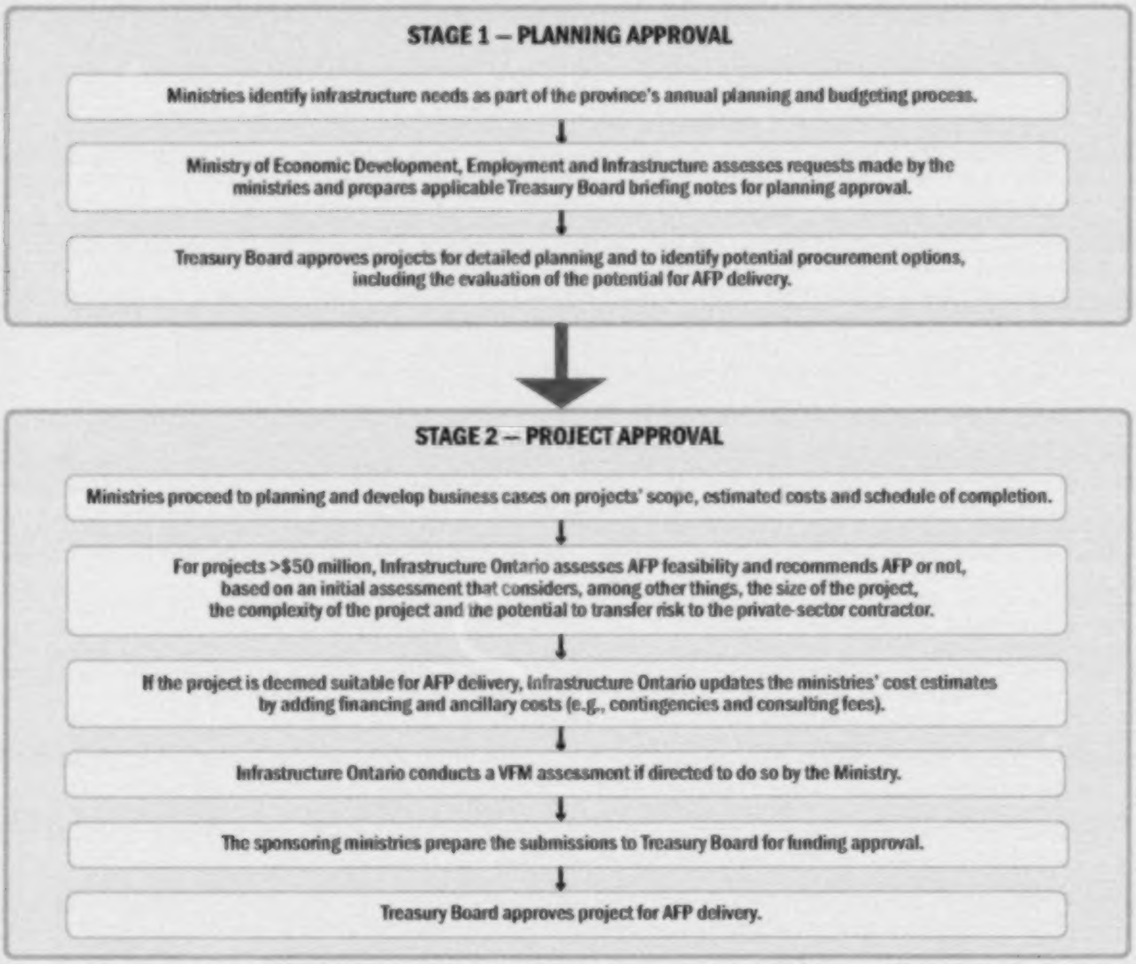
Infrastructure Ontario is governed by a board of directors. As of March 2014, of the 493 full-time employees at Infrastructure Ontario, approximately 160 supported the delivery of AFP projects. The agency funds its AFP activities through fees that it charges project sponsors for its services in delivering projects using the AFP model. Since 2005, Infrastructure Ontario has collected nearly $450 million in such fees to March 31, 2014. A little over half of these fees were also used to pay for project transaction costs such as external advice, project management and legal fees.

Appendix 1 lists the various AFP models that Infrastructure Ontario normally uses to deliver projects.

For the most part, provincial ministries evaluate and prioritize their infrastructure needs based on factors that include the state of their existing infrastructure, projected demand for their services and government policy changes, and submit a 10-year infrastructure plan as part of the province's annual planning and budgeting process. The Ministry of Economic Development, Employment and Infrastructure (Ministry) reviews and analyzes the funding requests for individual projects submitted by ministries in their plans and makes recommendations to the Treasury Board/Management Board of Cabinet (Treasury Board) for approval, including whether or not the projects should be delivered using the AFP model. Cabinet then ratifies the

Figure 1: The Province's Overall Project Selection and Approval Process

Prepared by the Office of the Auditor General of Ontario


STAGE 1 – PLANNING APPROVAL
Ministries identify infrastructure needs as part of the province's annual planning and budgeting process.
Ministry of Economic Development, Employment and Infrastructure assesses requests made by the ministries and prepares applicable Treasury Board briefing notes for planning approval.
Treasury Board approves projects for detailed planning and to identify potential procurement options, including the evaluation of the potential for AFP delivery.
STAGE 2 – PROJECT APPROVAL
Ministries proceed to planning and develop business cases on projects' scope, estimated costs and schedule of completion.
For projects >$50 million, Infrastructure Ontario assesses AFP feasibility and recommends AFP or not, based on an initial assessment that considers, among other things, the size of the project, the complexity of the project and the potential to transfer risk to the private-sector contractor.
If the project is deemed suitable for AFP delivery, Infrastructure Ontario updates the ministries' cost estimates by adding financing and ancillary costs (e.g., contingencies and consulting fees).
Infrastructure Ontario conducts a VFM assessment if directed to do so by the Ministry.
The sponsoring ministries prepare the submissions to Treasury Board for funding approval.
Treasury Board approves project for AFP delivery.

Treasury Board's decision to approve the project and deliver it using the AFP model. **Figure 1** provides an overview of this approval process.

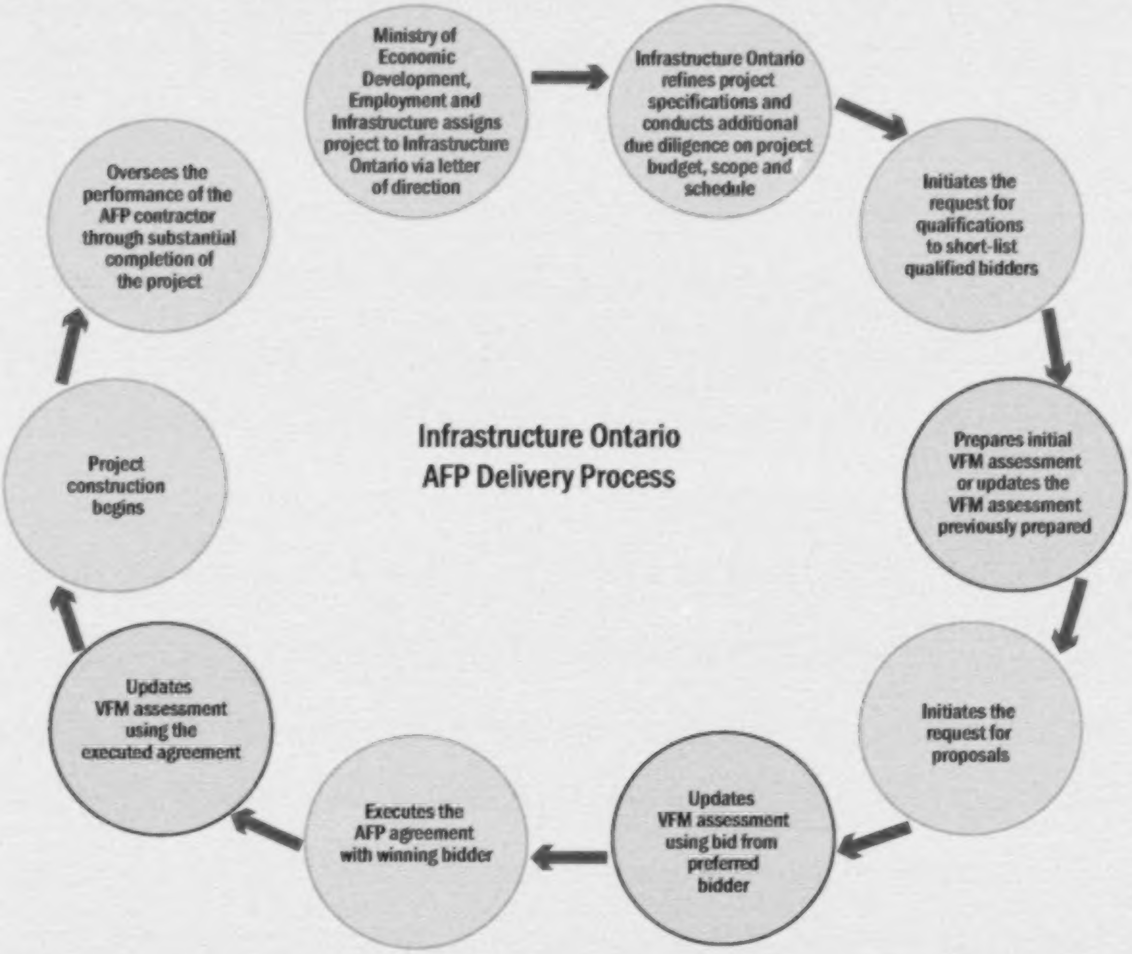
After being approved for AFP delivery, the project is assigned to Infrastructure Ontario by the Ministry via a letter of direction. The letter of direction is accompanied by the project's approved budget and the expected year of completion. Upon receipt of the letter, a memorandum of understanding, the project charter and the implementation plan are developed between Infrastructure Ontario and the project's sponsor. As seen in **Figure 2**, in delivering an AFP project, Infrastructure Ontario's responsibilities include:

- reviewing and refining the project scope, budget and schedule of completion initially prepared by the sponsor;
- completing value-for-money assessments to support the decision to use the AFP model to deliver the project;
- conducting a competitive process to select the AFP contractor to build and in some cases maintain and/or operate the project; and
- monitoring and reporting on the performance of the contractor in fulfilling its obligations under the AFP contract.

In June 2011, the government introduced, through the Ministry, a 10-year strategic framework

Figure 2: Infrastructure Ontario's AFP Delivery Process

Prepared by the Office of the Auditor General of Ontario


Ministry of Economic Development, Employment and Infrastructure assigns project to Infrastructure Ontario via letter of direction
Infrastructure Ontario refines project specifications and conducts additional due diligence on project budget, scope and schedule
Initiates the request for qualifications to short-list qualified bidders
Prepares initial VFM assessment or updates the VFM assessment previously prepared
Initiates the request for proposals
Updates VFM assessment using bid from preferred bidder
Executes the AFP agreement with winning bidder
Updates VFM assessment using the executed agreement
Project construction begins
Oversees the performance of the AFP contractor through substantial completion of the project
Infrastructure Ontario AFP Delivery Process

titled *Building Together: Jobs and Prosperity for Ontarians*, to guide investments in infrastructure in Ontario. Among other things, the framework proposed to make greater use of Infrastructure Ontario to procure the province's infrastructure. According to the framework:

- Through the province's planning and budgeting process, the Ministry was to make recommendations to the government on the procurement method and delivery of all infrastructure projects or groups of infrastructure projects valued at more than $50 million. The criteria for assessing these projects would include scope, complexity and the results of value-for-money assessments. The Ministry was to also seek input from the other provincial ministries and from Infrastructure Ontario.
- Infrastructure Ontario would have a greater role in procuring infrastructure, including engaging in traditional public-sector forms of procurement as well as AFPs when appropriate.
- Groups of smaller projects of a similar nature would increasingly be bundled to be delivered by Infrastructure Ontario, either by traditional forms of procurement or by Alternative Financing and Procurement.
- Recipients of provincial infrastructure project grants in excess of $100 million would consult with Infrastructure Ontario to determine how and whether Infrastructure Ontario could assist them with the procurement of their projects.
- Infrastructure Ontario would take an expanded role in procuring information technology projects and would support implementation of the *Growth Plan for Northern Ontario* (a strategic framework that was released by the government in 2011 to guide decision-making and investment planning in Northern Ontario over the next 25 years).

As seen in **Figures 3** and **4**, as of May 2014, Infrastructure Ontario had been involved in the delivery of 75 AFP infrastructure projects, ranging from hospitals to courthouses to highways and transit projects. Of these 75 projects, 34 have a maintenance and/or an operating component.

Audit Objective and Scope

The objective of our audit was to assess whether Infrastructure Ontario has effective systems and processes in place to ensure that:

- the decision to use the alternative financing and procurement model is suitably supported by a competent analysis of alternatives;
- all significant risks and issues are considered and appropriately addressed in the final agreement; and

Figure 3: Infrastructure Projects by Sector and AFP Model as of May 2014

Source of data: Infrastructure Ontario

Sector	DBFM	BF	DBF	BFM	DBFMO	Total
Health care	13	27	4	3	–	**47**
Justice	9	1	–	–	–	**10**
Transit*	3	–	2	–	1	**6**
Transportation	4	–	–	–	–	**4**
Pan Am Games	–	1	3	–	–	**4**
Education	–	–	3	–	–	**3**
Information technology	1	–	–	–	–	**1**
Total	**30**	**29**	**12**	**3**	**1**	**75**

* For two transit projects (Ottawa light rail transit and Waterloo light rail transit), Infrastructure Ontario is acting only as an adviser to the municipalities.

Figure 4: Status of AFP Projects as of May 2014

Source of data: Infrastructure Ontario

Sector	Construction Substantially Complete	Under Construction	Selection of AFP Contractor Under Way	Total
Health care	27	8	12	**47**
Justice	10	–	–	**10**
Transit*	–	2	4	**6**
Transportation	–	3	1	**4**
Pan Am Games	–	4	–	**4**
Education	–	1	2	**3**
Information technology	1	–	–	**1**
Total	**38**	**18**	**19**	**75**

* For two transit projects (Ottawa light rail transit and Waterloo light rail transit), Infrastructure Ontario is acting only as an adviser to the municipalities.

- public expenditures are incurred with due regard for economy.

Senior management of Infrastructure Ontario reviewed and agreed to our objective and associated audit criteria.

Our audit work was predominantly conducted between November 2013 and May 2014 at the offices of Infrastructure Ontario, where we interviewed key agency staff and reviewed pertinent documents. For a sample of projects, we also reviewed their budgets, documentation with respect to the procurement of the AFP contractors and advisers, project contractual agreements and Infrastructure Ontario's monitoring of the AFP contractor.

We met with representatives from ministries that were sponsors of AFP projects and with representatives from a sample of the AFP projects sponsored by the broader public sector, such as a hospital or a college.

We also met with external advisers that Infrastructure Ontario used to assign and value the risks in value-for-money assessments, officials at the Ministry of Finance to obtain an understanding of the future liability associated with AFP projects, and lenders to AFP projects to obtain an understanding of their monitoring of AFP projects. We also surveyed other Canadian jurisdictions on their processes for delivering P3 projects.

Additionally, our audit included a review of the relevant audit reports issued by the province's internal audit division, which were helpful in determining the scope and extent of our audit work.

Summary

When the province constructs public-sector facilities such as hospitals, courthouses and schools, it can either manage and fund the construction itself or have the private sector finance and deliver the facilities. For 74 infrastructure projects (either completed or under way) where Infrastructure Ontario concluded that private-sector project delivery (under the Alternative Financing and Procurement [AFP] approach) would be more cost effective, we noted that the tangible costs (such as construction, financing, legal services, engineering services and project management services) were estimated to be nearly $8 billion higher than they were estimated to be if the projects were contracted out and managed by the public sector.

However, this $8-billion difference was more than offset by Infrastructure Ontario's estimate of the cost of the risks associated with the public sector directly contracting out and managing the construction and, in some cases, the maintenance of these 74 facilities. In essence, Infrastructure Ontario estimated that the risk of having the projects not being delivered on time and on budget were about five times higher if the public sector directly managed these projects versus having the private sector manage the projects. It valued the cost of the risks under public sector delivery to be $18.6 billion and the risks under AFP delivery to be $4 billion.

While projects managed by the private sector for the most part were delivered on time and cost about the same as their contracts specified, according to Infrastructure Ontario's estimates, the tangible costs are still almost $8 billion higher than if the public sector had been able to contract out the projects to the private sector and oversee their successful delivery. Successful delivery means on time and on budget, and ensuring that the infrastructure is properly maintained over its useful life. Infrastructure Ontario believes that private-sector financing contributes to the successful delivery of complex projects under the AFP approach, but should only be used to the extent that is required to transfer risks.

The private sector initially finances construction of AFP projects, but, as with projects delivered by the public sector, the province ultimately pays for these projects under the terms of their contracts, some of which are up to 30 years. The March 31, 2014 Public Accounts reported almost $23.5 billion in liabilities and commitments relating to AFP projects that the present and future governments, and ultimately taxpayers, will have to pay. However, the financial impact of AFP projects is higher since the province has also borrowed funds to make the payments to AFP contractors when the various projects reached substantial completion. These borrowed amounts, which we estimate to be an additional $5 billion, are part of the total public debt recorded in the March 31, 2014, Public Accounts.

Additional related issues are as follows:

- **Costing of risks tips the assessment of whether AFPs or public-sector project delivery will result in more value for money in favour of using AFPs:** To compare using AFPs to using the public sector to deliver infrastructure projects, Infrastructure Ontario relies on "value-for-money" (VFM) assessments. These VFM assessments take into account both estimated tangible costs (including construction, financing, legal services, engineering services and project management services) and the estimated costs of related risks (for example, late changes to project design or changes in government priorities that result in delays). Infrastructure Ontario assigns costs to these risks and assesses how much the province's costs would be reduced by when some risks are transferred to the private sector under AFP. For the projects we reviewed, it was only Infrastructure Ontario's costing of the risks and the impact of transferring some of them to the private sector under AFP that tipped the balance in favour of AFP over public-sector project delivery. As noted, Infrastructure Ontario's VFM assessments indicate that risks to the province are about five times higher when the public sector delivers projects than under AFP. Our concerns about these risk costs included the following:
  - While we acknowledge that there are examples of recent projects delivered by the public sector that have experienced cost overruns, there is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. Instead, the agency relies on the professional judgment and experience of external advisers to make these cost assignments, making them difficult to verify. In this regard, we noted that often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used

to value risks between the public sector delivering projects and the AFP approach.

- In some cases, a risk cost that the project's VFM assessment assumed would be transferred to the private-sector contractor was not actually transferred, according to the project agreement. For example, the VFM assessment for a hospital project assumed the contractor would bear the risk of design changes; however, this hospital project was procured under a Build Finance model, in which the contractor is not responsible for project design, and the project agreement made the public sector responsible for the risk of design changes. In fact, the private-sector contractor was paid an additional $2.3 million as part of two change orders resulting from changes to the hospital's original design.
- Two of the risks that Infrastructure Ontario included in its VFM assessments were inappropriate. Their combined cost over 74 AFP projects was almost $6 billion (about a third of the overall total of risk costs for public-sector project delivery), and if they had not been included in the VFM assessments, public-sector delivery for 18 of these projects would have been assessed as $350 million cheaper than delivery under AFP (taking into account both estimated tangible costs and the remaining estimated risk costs).
- Based on our audit work and review of the AFP model, achieving value for money under public-sector project delivery would be possible if contracts for public-sector projects had strong provisions to manage risk and provide incentives for contractors to complete projects on time and on budget, and if there is a willingness and ability on the part of the public sector to manage the contractor relationship and enforce the provisions when needed. Total costs for these projects could be lower than under an AFP, and no risk premium would need to be paid. This approach was initially followed in an Ontario college project. Phase 1 of the project, a building with classroom and retail space, was procured using public-sector delivery and was completed on time and on budget. The college was directed to procure phase 2, the construction of a similar building, through AFP. After inflation and some differences between the two buildings were factored in, the cost per square foot for this second building was expected to be about 10% higher than the cost per square foot for the first building. Much of this additional expense stems from higher financing costs and higher ancillary costs (such as legal, engineering and project management fees). The college tried—unsuccessfully—to be released from using the AFP approach for phase 2.
- **Infrastructure Ontario's estimated costs for projects differed significantly from the contracted project costs:** Infrastructure Ontario's estimated costs for those projects either substantially complete or under construction at the time of our audit—as reflected in the budgets it submitted to Treasury Board for approval—were about $12 billion (or 27%) higher than the contracted costs. The cost difference was mainly due to Infrastructure Ontario's high estimates of long-term costs (long-term financing, maintenance and life-cycle costs) in Design Build Finance Maintain projects. More realistic budgets would enable Infrastructure Ontario to better assess the reasonableness of bids during the tender process. More accurate budgets would also enable Treasury Board to better assess the government's ability to fund these projects and the impact of these projects on other government priorities.

Infrastructure Ontario has a strong track record of delivering projects such as hospitals, courthouses and detention centres on time and on budget. It may now be in a position to utilize its expertise to directly manage the construction of certain large infrastructure assets and thereby reduce the cost to taxpayers of private sector financing. There is a role for both private sector and public sector project delivery. As experience with AFPs has developed, it may be time to assess what those roles and financing mix could be going forward.

OVERALL INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario appreciates the hard work and insights of the Auditor General's Office in examining Infrastructure Ontario's Alternative Financing and Procurement (AFP) program. We appreciate its recognition of our strong track record of delivering projects such as hospitals, courthouses and detention centres on time and on budget. We believe this report will make a significant contribution to the thinking around public project management in Ontario and in the many other jurisdictions beginning the long overdue task of addressing their infrastructure deficits.

We are in full agreement with the Auditor General's observation that the selection of the appropriate project delivery model—including AFP delivery—ought to be informed by:

- the best evidence around the risks of delivering the projects using traditional and AFP delivery; and
- a recognition that private finance should be used judiciously so that known incremental upfront costs are clearly lower than the risks AFP is meant to mitigate and transfer.

We believe that efficiently structured AFPs are the optimal delivery method for large complex projects. We are in full agreement with the report's recommendation relating to careful consideration of the threshold at which a project is considered large and complex. This is entirely consistent with Infrastructure Ontario's commitment to constantly seek better ways to deliver projects in the most cost-effective way.

We publish an annual account of our AFP project-delivery results, the most recent of which confirms our internationally recognized track record: 36 of 37 projects delivered within the budget established at the time the contract was awarded. While there are occasionally published reports by others on individual traditionally delivered projects in Ontario and professional cost consulting firms that can draw on their industry expertise, there is no comprehensive database which tracks the results of traditionally delivered projects. We agree that such a comprehensive database would serve as an extremely useful resource to inform the delivery-model selection analysis that should happen for all projects, and we would be pleased to work with the Ministry of Economic Development, Employment and Infrastructure and other line ministries to gather this data.

We also agree with the Auditor General's conclusion that the province could benefit by having Infrastructure Ontario deliver public-sector delivery projects on behalf of ministries, agencies and broader-public-sector partners. Infrastructure Ontario has developed considerable project management experience over the last nine years that could be applied more broadly. Infrastructure Ontario would be pleased to deliver such projects at the direction of the Minister of Economic Development, Employment and Infrastructure.

We also agree with the Auditor General's overall conclusion that there are opportunities to improve the value-for-money methodology. Over the last decade, we have engaged professional accounting and cost consulting firms in the development and refinement of the methodology. We also track developments in P3 projects around the world so we can learn from the experiences of others. There will continue to be opportunities to improve the methodology as we gain more project-delivery experience and more data on the performance of traditional and of AFP projects, and integrate new insights from organizations such as the Auditor General's Office.

Infrastructure Ontario will undertake the Auditor General's recommendations to further improve our AFP program. We will act on each and every recommendation in our commitment to continuously improve the services we provide the province.

Detailed Audit Observations

Value-for-money (VFM) Assessment

A key principle that guides Infrastructure Ontario in delivering projects using the AFP approach is that value for money must be demonstrable. The Treasury Board's funding approvals for AFP projects are "contingent on continued demonstration of positive value for money." At the time of our audit, VFM assessments conducted by Infrastructure Ontario on the 74 projects that it had managed or was managing showed that the total of the tangible costs, such as base construction costs, financing costs and ancillary costs, was about $8 billion higher under the AFP delivery model than if the public sector had delivered these projects. It was only the estimated value of the risks associated with the public sector delivering the projects that resulted in AFPs yielding positive VFM.

A VFM analysis compares the estimated project costs of the public sector delivering the project (known as the public-sector comparator, or PSC) with the estimated cost of delivering the same project to the identical specifications using the AFP delivery model. If the cost for the AFP delivery model is less than the cost for public-sector delivery, then there is positive VFM by procuring the project using the AFP approach. Infrastructure Ontario uses external advisers to prepare VFM assessments and, for the most part, assessments are prepared at four different stages: before Treasury Board approval when directed to do so by the Ministry; just before the issuance of the request for proposal during the procurement of the AFP contractor; after the preferred bidder has been identified; and after the project agreement has been finalized. The following components make up the total project cost under both delivery methods (that is, the public-sector comparator and AFP):

- **Base costs:** Costs that are incurred in completing the construction of the project (including labour, materials, construction equipment, site preparation, construction management and contingencies); life-cycle costs (costs associated with planned or scheduled replacement and/or refurbishment of building systems, equipment and fixtures that have reached the end of their useful service life during the contract term); and facility management costs (includes the costs associated with the management, maintenance and repair services related to the building and building components to allow the facility to be used for its intended purposes throughout the term of the project agreement; may also include soft facility management such as grounds maintenance, parking, security and retail services such as a food court or a cafeteria). In VFM assessments, Infrastructure Ontario assumes the base costs on both the public-sector comparator and AFP sides to be the same.
- **Premium:** On the AFP side, Infrastructure Ontario adds a premium that it assumes the private sector will charge as compensation for the risks transferred to it under the AFP delivery model.
- **Competitive neutrality:** According to Infrastructure Ontario, the base costs under the AFP side include taxes and the costs that the private sector incurs with respect to insurance. Since the government does not pay taxes and typically "self-insures," it is perceived to have a cost advantage in VFM assessments.

As a result, Infrastructure Ontario makes an adjustment called the "competitive neutrality adjustment" by adding such costs to the public-sector comparator.

- **Financing costs:** When the public sector delivers a project, funds to build the project are for the most part provided by the province. While the province may not borrow the money directly, the assumption is that it incurs a cost of having to pay earlier than it would under an AFP and that it could have used these funds to pay down existing public debt, thus avoiding interest costs on the paid-down debt. Under an AFP, payment for construction is delayed until substantial completion or later; thus, in the interim, the contractor has to borrow funds and incur financing costs. The benefits of any private-sector financing need to be managed only to a level required to transfer risks. Infrastructure Ontario is in the process of assessing what the appropriate level of private-sector financing ought to be to optimize risk transfer and, at the same time, minimize financing costs.
- **Ancillary costs:** These costs normally consist of project management, legal services, architectural, engineering, advisory, transaction and other professional fees. These fees are typically higher under the AFP model.
- **Retained risks:** These are additional costs that may result due to certain events or risks, such as those listed in **Appendix 2**, that may arise over the life of a project.

Since 2006, Infrastructure Ontario has conducted over 200 VFM assessments for 74 of the 75 infrastructure projects noted in **Figure 3** that, based on an initial assessment, it had deemed suitable for AFP delivery. None of these VFM assessments has shown a negative VFM from using the AFP model. In other words, all of these VFM assessments concluded that the delivery of the projects would be cheaper under the AFP approach than the public sector. The assessments are accompanied by a letter from an accounting firm that acknowledges that the assessment was prepared in accordance with Infrastructure Ontario's methodology. However, all letters contain a disclaimer by the firm that it has not audited or attempted to independently verify the accuracy and completeness of the information used in the calculation of VFM.

Figure 5 combines the results of the latest VFM assessments that were conducted on the 74 AFP projects that Infrastructure Ontario had managed or was managing at the time of our audit. It shows that the total of the tangible components of project cost (including base cost, financing costs and ancillary costs) is $8 billion higher under the AFP delivery model than in the public sector comparator. However, the estimated value of the risks retained by the public sector when the public sector delivers a project offsets the higher costs of the AFP delivery model. A key assumption behind this result is that the risks are about five times higher when the public sector delivers its own projects versus when the AFP delivery model is used. It is this assumption that gives AFPs an overall positive VFM.

No formal VFM assessment was done for service centres along Highways 400 and 401 that had been recently procured using the AFP approach. Infrastructure Ontario was directed by the Ministry to work with the Ministry of Transportation in procuring the service centres using the AFP model. It was determined by Infrastructure Ontario that a VFM assessment was not appropriate because the existing service centres were already outsourced and the province expects its investment in the new service centres to be fully recovered through payments from leaseholders under the terms of the contract.

Based on **Figure 1**, projects greater than $50 million are considered large-scale and, therefore, candidates for AFP delivery. This threshold could be revisited to ensure that the skills and expertise needed to manage a project is balanced between the use of public-sector delivery versus the AFP approach.

Delivery Models' Retained Project Risks

Value-for-money assessments consider about 90 risks grouped into the 11 categories shown in **Appendix 2**. As noted in **Figure 5**, the VFM assessments that were done by Infrastructure Ontario for 74 projects assumed that, by using the AFP model instead of public-sector delivery to procure projects, $14.6 billion in risks would either be mitigated or transferred to the private sector. The following are some concerns we have with respect to this assumption:

No Empirical Data Supports the Valuation of the Cost of the Risks

Infrastructure Ontario uses two external firms to assign and value the cost of the risks in comparing public-sector project delivery (the public-sector comparator) and the AFP delivery model. The expected cost of each risk is based on the probability of the risk occurring multiplied by the cost impact of the risk. In our discussions with the external advisers, they confirmed that the probabilities and cost impacts are not based on any empirical data that supports the valuation of the risks, but rather on their professional judgment and experience. They spoke anecdotally of public-private partnership projects in Ontario and other jurisdictions delivered on time and on budget that contrast with the province's poor track record in delivering infrastructure projects through the public sector. In this regard, we noted that often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used to value risks between the public-sector comparator and the AFP delivery model. For example, close to $1.2 billion in costs has been allocated to the public-sector comparator side for the risk that incomplete information would be provided to potential bidders during the request for proposal (RFP) stage, leading bidders to submit higher bids to hedge against the uncertainty. In contrast, on the AFP side only about $34 million in costs have been allocated for this risk.

Such a significant difference between the two approaches may not be justified. RFP tender documentation includes an element of uncertainty under both procurement approaches, and both

Figure 5: Combined Results of the Latest Value-for-money Assessments Conducted by Infrastructure Ontario ($ billion)

Source of data: Infrastructure Ontario

Component of Project Cost	Public-sector Comparator (PSC)	Alternative Financing and Procurement (AFP)	Difference[1]
Base costs	26.0	26.0	
Premium	–	1.9	
Competitive neutrality	0.8	–	
Subtotal	**26.8**	**27.9**	**(1.1)**
Financing costs	0.5	7.0	(6.5)[2]
Ancillary costs	0.7	1.1	(0.4)
Subtotal	**28.0**	**36.0**	**(8.0)**
Retained risks	18.6	4.0	14.6
Overall Total	**46.6**	**40.0**	**6.6**

1. Numbers in parentheses show components where the cost of PSC is cheaper than the costs of AFP.
2. AFP financing costs are typically higher than public-sector financing costs, primarily because the provincial cost of borrowing included in the latest value-for-money assessments (VFMs) is lower than the private-sector cost. This difference in borrowing costs, extended over the long term of project agreements (where the AFP contractor may be responsible for maintaining and operating the facility) results in the AFP financing-cost component being $6.5 billion higher.

approaches give potential bidders opportunities to ask for clarification. In one respect there may be greater uncertainty in the AFP model. Under public-sector delivery, a "stipulated sum contract"—where bidders submit a lump-sum bid for the construction of the project based on a finalized design—is typically used. In contrast, the AFP approach may be more open-ended, using only output specifications that are subject to discussion and clarification with potential bidders. For example, in an AFP with a design component, the contractor is provided only with the owner's vision, objectives and requirements (that is, "must haves") for the project. From these, the contractor then has to develop a detailed project design.

Some Risks Considered Transferred to the Private Sector Are Not Supported by Project Agreements

At the time of our audit, we requested data from Infrastructure Ontario for a sample of AFP projects to verify that risks were indeed being transferred to the private sector. At our request, Infrastructure Ontario mapped the risks in the VFM assessments assumed to be transferred to relevant provisions of the respective project contractual agreements. The exercise revealed a number of inconsistencies between the risks assumed to have been transferred in the VFM assessments and the respective project agreements. For instance:

- In VFM assessments the cost associated with permit approvals is considered to be the responsibility of the AFP contractor. However, according to the AFP agreements, these costs are shared between the contractor and the province.
- We noted that the VFM assessment for a hospital procured under the Build Finance model incorrectly assumed the transfer of design risk (which includes additional costs resulting from changes due to design co-ordination, completeness, conflicts, etc.) to the private sector, even though, according to the project contractual agreement, this risk remained with the hospital. That the hospital continued to bear this risk was further evidenced by the additional $2.3-million payment made to the private-sector contractor as part of two change orders because of subsequent changes made to the original design of the hospital.

Two Significant Risks on the Public-sector Comparator Side Should Not Have Been Included

Two specific risks, whose costs account for about one-third of the value in retained risks on the public-sector comparator side in **Figure 5**, should not have been included. Specifically:

- For AFP projects with a maintenance component, nearly $3 billion in costs associated with "asset residual" risk has been included in the $18.6 billion of retained risk on the public-sector comparator side in **Figure 5**, and only $200 million of the $4 billion under the AFP model. This assumes that assets procured through the public sector will not be maintained as well as assets procured via AFP, where the private-sector contractor is responsible for maintaining the asset over the 30-year term of the AFP agreement. Although ownership of the asset resides with the province, such agreements contain a schedule of maintenance, including replacement of the asset's major components, which the private-sector contractor must adhere to. The agreements usually contain provisions for penalties that can be levied on the contractor if it fails to carry out maintenance work in accordance with the schedule. This discipline in maintaining assets is commonly regarded as one of the key benefits of AFP contracts with a maintenance component. The normal assumption is that government does not allocate sufficient funds to maintain infrastructure once it is built. Therefore, AFP assets at the end of the term of agreements that include maintenance are considered to be in better condition than assets procured through the public sector.

Although this risk may well be legitimate, it has been double counted. Specifically, in the VFM assessments, in addition to including a cost of nearly $3 billion in retained risk on the public-sector side, Infrastructure Ontario also assumed a base cost on the public-sector side for maintaining projects and replacing their major components in the same amount and timing as in the base cost on the AFP side. Under this situation, there should not be any difference in the condition of assets between the two procurement approaches and hence there should be no need for an additional public-sector comparator cost related to "asset residual" risk.

- Over $2.9 billion in costs associated with "planning, process and allocation practices" risk has also been included in the $18.6 billion of retained risk on the public-sector comparator side in **Figure 5**, and only $800 million has been included in the $4 billion on the AFP side. This assumes that internal government approvals will be delayed and in turn will delay the issuance of tenders. However, since this risk is specifically taken into account when approval is still being sought for the project and the method of delivering the projects (that is, public-sector vs. AFP model) has not yet been determined, the risk is equally applicable under both models. Infrastructure Ontario, in an update of its methodology for assessing VFM that was being proposed at the time of our audit (discussed below), has recognized this and will be eliminating most of the costs associated with "planning, process and allocation practices" from both delivery models.

If the cost impact of the above two risks had been removed from VFM assessments that have been completed to date, 18 of the 74 projects would not have shown a positive VFM from procuring the projects using the AFP model. The latest VFM assessments for these 18 projects initially calculated a consolidated savings of over $1.5 billion from using the AFP delivery model. Removing the two risks results in changing this scenario to a $350-million savings if the public-sector delivery model is used.

In our discussions, the sponsors of AFP projects, particularly those with more experience in procuring infrastructure assets, felt that there was a lack of transparency in allocating the costs associated with risks to the two procurement approaches and an over-reliance on consultants in developing the allocations. Other, less experienced sponsors were satisfied overall with Infrastructure Ontario's process of delivering projects using AFP, because it provided them with move-in facilities.

Proposed Changes to Infrastructure Ontario's VFM Assessment Methodology

Figure 6 highlights changes that, at the time of our audit, Infrastructure Ontario had proposed to its methodology for assessing whether the AFP delivery approach would yield a positive VFM in future projects.

In a sample of the latest VFM assessments of the 74 projects, we incorporated these proposed changes and noted that the changes did not significantly change the VFM assessments. In our sample, the changes resulted in differences that ranged from an increase of about 2% to a decrease of about 9% in the previously reported VFM.

We question Infrastructure Ontario's plan to add an innovation adjustment of up to 13.3% to the base cost on the public-sector comparator side. Infrastructure Ontario came to the conclusion that this adjustment was needed by comparing the pre-RFP budget of various projects to the average bids received for the same projects, and finding that the bids were lower. It made the assumption that the private-sector bidders were containing costs through value-added innovations that the RFPs had not anticipated. However, the average bid coming in below budget could also be due to a number of other factors, such as overly generous budget estimates and changing market conditions, and may not necessarily be directly related to innovation.

Figure 6: Infrastructure Ontario's Proposed Changes to Its Methodology for Future VFM Assessments

Source of data: Infrastructure Ontario

Components of Project Cost	Key Changes Proposed by Infrastructure Ontario for Future VFM Assessments
Base costs	Increase the base cost on the public-sector side by up to 13.3% to reflect value-added innovations that the private sector brings to projects that are not realized under public-sector procurement.
Financing costs	Vary the percentage of the payment when a project's construction is substantially complete to optimize financing costs and ensure that the contractor has sufficient "skin in the game." For social projects such as hospitals, courthouses and jails, Infrastructure Ontario proposed to increase the payment from 50% of the cost of the project to 60%. For civil projects such as roads and transit systems, the Infrastructure Ontario proposed to decrease the payments at substantial completion to 75% from 85% of the cost of the project.
Ancillary costs	No changes proposed.
Premium	To better reflect changes in the AFP market, reduce the estimate of the risk premium on the AFP side from 5% to 10% of the base cost depending on the type of project to 0% to 6%.
Competitive neutrality	Figure 5 shows an $800-million "competitive neutrality" adjustment to the public-sector comparator. Over half of this adjustment relates to the government normally self-insuring. Infrastructure Ontario assumes that when the government chose to self-insure, it not only saved on insurance premiums but also took on risks that would otherwise be covered by insurance. The government should therefore have to account for these added risks, so Infrastructure Ontario adjusted the public-sector comparator by adding an amount equivalent to the premiums otherwise paid by the private sector under an AFP. But in the VFM assessments in Figure 5, Infrastructure Ontario assumes the same base costs for projects under both procurement models instead of assuming a lower base cost under the public-sector comparator. Therefore, the addition of the premiums resulted in a double counting of costs. Infrastructure Ontario has acknowledged this double counting and will no longer be adding insurance premiums on the public-sector comparator side in future VFM assessments.
Risks retained	Consolidate the number of risks considered and assign new risk probabilities and impact to reflect Infrastructure Ontario's experience gained to date on the delivery of AFPs. Infrastructure Ontario has proposed to significantly reduce the cost differential between the public-sector comparator and AFP resulting from the "planning, process and allocation practices" risk discussed in the section "Risks Considered to Be Retained by the Two Project Delivery Models."

RECOMMENDATION 1

Infrastructure Ontario should, in conjunction with the Ministry of Economic Development, Employment and Infrastructure, gather data on actual cost experience from recent public-sector infrastructure procurements and alternative financing and procurements (AFPs) and revise its VFM assessment methodology to ensure that the valuation of risks assumed to be retained under both the AFP and public-sector delivery models are well justified.

INFRASTRUCTURE ONTARIO RESPONSE

As acknowledged by the Auditor General, the absence of comprehensive, formal data for traditionally delivered projects provides an industry-wide challenge in making meaningful comparisons between the delivery models. We would be pleased to work with the Ministry of Economic Development, Employment and Infrastructure and other line ministries to gather this data.

Infrastructure Ontario is focused on continually improving all of our processes, including value for money (VFM), and will continue to leverage our experience, industry expertise and data relating to traditionally delivered projects to further refine the VFM methodology.

RECOMMENDATION 2

To ensure that value-for-money assessments in procuring large-scale infrastructure projects are valid and objective, Infrastructure Ontario should confirm:

- that all risks assumed to be transferred to the AFP contractor are supported by relevant provisions of the project agreement; and
- that the costs assigned to retained risks in the public-sector comparator are not accounted for elsewhere in the assessments.

Infrastructure Ontario should also confirm that the threshold for what is considered a large-scale project is useful in screening projects that should be procured using the AFP approach versus the public-sector delivering the project.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario uses the established value-for-money (VFM) process to conduct preliminary analysis of potential projects to ensure proper project delivery methodology is used. It is important to note that value for money is part of a larger assessment process that takes into consideration technical aspects of a project such as size, complexity and cost. We recognize that the size threshold at which projects become large and complex merits careful consideration. The costs in the VFM methodology are accounted for using the best advice of third-party experts. Through our continuous improvement efforts, we also endeavour to confirm that costs are appropriately allocated to responsible parties.

Earlier this year, Infrastructure Ontario, with its commitment to continuous improvement, undertook a refresh of its VFM methodology to reflect what we have learned from the projects we delivered. We will continue to ensure our documents reflect appropriate risk transfer, and monitor the effectiveness through our annual track record.

RECOMMENDATION 3

Infrastructure Ontario should ensure that all proposed changes to its VFM assessment methodology, including its plan to increase the base cost on the public-sector comparator side by up to 13.3% to reflect value-added innovations that the private sector may be bringing to projects, can be and are fully supported and can sustain scrutiny.

INFRASTRUCTURE ONTARIO RESPONSE

Recognizing the evolution of the market, and the advice of the Auditor General, Infrastructure Ontario is undertaking a review of the value-for-money methodology to ensure that costs are appropriately accounted for, and that innovation incorporated into the process is reflected. Infrastructure Ontario relies on the knowledge of third-party advisers to ensure that costs are accurately reflected throughout each stage of the project development and procurement process, and we will continue to incorporate new findings into our methodology through our continuous improvement efforts.

A Properly Structured Contract under Public-sector Procurement Might Also Help Manage Risks Considered to Have Been Mitigated or Transferred under AFPs

We reviewed the 38 AFP projects that were completed at the time of our audit and found that, with a few exceptions, the construction of most projects was on time and on budget. Specifically:

- Infrastructure Ontario gauged whether an AFP project was on time by comparing the actual date when the project was substantially completed (that is, all requirements had been

- completed in accordance with the project agreement other than the rectification of minor deficiencies, and the occupancy permit had been issued) to the date in the AFP agreement. In our review of the 38 projects that were substantially completed at the time of our audit, we noted that eight were delayed by greater than 60 days, with the longest delayed over a year. For six of these projects, the contractor bore the financial consequences for the delay. For the remaining two projects, the province bore additional financial consequences since the delays were due to design errors or changes to the projects' scope, which the contractor was not responsible for according to the contractual agreement.
- For the 38 projects that were completed at the time of our audit, we also compared the construction cost stipulated in the awarded contracts to the projects' actual costs to date and found that on average cost overruns were only about 3%.

A project completed on time and on budget is seen as a key benefit of the AFP delivery option. According to a recent paper published by the Fraser Institute, in a P3 the private-sector partner assumes more risk, which encourages improved performance. In an AFP, the private-sector partner also provides up-front financial capital during the construction period and, in most cases, receives payment only when the project is completed according to the contract specifications. By providing the initial financing, the private-sector partner has its own money at risk. Failure to restrain costs or produce positive results means less profit or a loss for the private-sector partner. According to the paper, this incentive is not present in public-sector procurements.

However, the assumption of additional risk and the provision of up-front financial capital by the private sector come at a cost. As seen in **Figure 5**, in the VFM assessments that Infrastructure Ontario conducted on AFP projects, it estimated that, while the base costs under the AFP and public-sector delivery models are the same, the total of the financing costs and premium is significantly higher under the AFP delivery model.

A properly structured contract under public-sector procurement may also be able to manage risks considered to have been mitigated or transferred under AFPs. Cost overruns in public-sector procurements can in many cases be due to incomplete project design that leads to late changes to the project specifications, unknown site conditions or delays caused by weather and work stoppages.

According to a recent article by an associate professor at the University of Toronto, apparent cost overruns in public-sector procurements may also result from government departments understating their project budgets. In public-sector procurements, sponsors, in an environment where there is always competition between projects for scarce resources, may strategically underestimate the costs of their favoured projects. A project that is seen to have lower costs and a shorter construction period is more likely to gain government support and approval than a more expensive alternative. Once a project is approved and construction begins, it becomes difficult to cancel, even as costs rise and deadlines are missed.

Many of the pitfalls that may result in projects procured via traditional means being delayed and/or going over budget can be avoided if the projects are properly planned and effectively managed. Just as AFP contractors are responsible for and make contingencies for factors that may result in cost overruns, public-sector contracts can be structured so that many of the risks are with the contractor, and projects can be planned and managed so that their sponsors do not put in late changes that add to project costs.

During our audit we noted a project in which one phase was contracted through the public sector and the second phase was handled as an AFP. In July 2011, an Ontario college completed the construction of phase 1 of the project, a 159,000-square-foot building on its campus in Mississauga housing classroom and retail space.

This building was procured through the public sector on time and on budget at a cost of $253 per square foot. It was funded in equal measure by the federal government, the province and the college. We estimated a financing cost of about $2.60 per square foot, which brought the total cost of phase 1 to just under $256 per square foot. The Ministry directed the college to procure phase 2 of the building by way of an AFP because it met the ministry's $50 million threshold for delivering the project using an AFP and the VFM analysis showed a positive VFM using the AFP delivery model. Phase 2, scheduled to be completed in June 2016, is similar to phase 1, but at about 226,000 square feet, it is a larger building. Its cost is expected to come in at about $326 per square foot. The following factors account for some of the higher cost of constructing phase 2:

- There was escalation in construction costs between 2009, the year the contract for phase 1 was awarded, and 2014, when the contract for phase 2 was awarded (estimated additional cost: $23 per square foot).
- Phase 2 has more classroom space, which is more expensive to build (estimated additional cost: $10 per square foot).
- Phase 2 also has some upgraded features from those that phase 1 had, which make it more expensive (estimated additional cost: $6 per square foot).

However, even after factoring in the above additional costs for building phase 2, phase 1 will still be cheaper by about 10%. This is because:

- Financing charges incurred by the private-sector contractor are expected to be about $3.8 million, compared to only about $420,000 for phase 1 (estimated additional cost: about $14 per square foot).
- The ancillary costs—such as legal, architectural and engineering fees—in phase 2 are expected to be about $6 million, compared to only $1.2 million in phase 1 (estimated additional cost: $20 per square foot).

The college unsuccessfully attempted to be released from having to use the AFP delivery model for phase 2, and even had the mayor of the city where the campus is located write to the premier on its behalf in March 2013. In the letter, the mayor indicated that based on analyses completed by the college, it was apparent that the college would be able to build a larger facility and achieve higher value for taxpayer dollars if development of Phase 2 proceeded outside the AFP process.

An official from the college with an important role in procuring both phases of the building informed us that a key reason in ensuring that phase 1 was completed on time and on budget was that the college had contractors bid on a complete design for phase 1 of the building that had the buy-in of all the key stakeholders. This approach prevented late changes to the building's specifications that could have delayed the project and added additional costs.

Infrastructure Ontario has a strong track record of delivering projects such as hospitals, courthouses and detention centres on time and on budget. Infrastructure Ontario may now be in a position to utilize its expertise to directly manage the construction of certain large infrastructure assets and thereby reduce the cost to taxpayers of private sector financing.

RECOMMENDATION 4

The Ministry of Economic Development, Employment and Infrastructure should also engage Infrastructure Ontario in traditional forms of procurement that utilize the experience that the agency has gained in delivering AFPs, for the most part, on time and on budget, in order to achieve cost benefits and to be consistent with the government's June 2011 strategic framework to guide investments in infrastructure in the province.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario oversees over 4,000 projects every year, the majority of which are delivered using traditional forms of procurement through our Real Estate Division. We agree with the Auditor General's conclusion that the province could benefit by having Infrastructure Ontario deliver public-sector delivery projects on behalf of ministries, agencies and other broader-public-sector partners as directed by the Minister of Economic Development, Employment and Infrastructure. Infrastructure Ontario has developed considerable project-management experience over the last nine years that could be applied more broadly.

Procurement of AFP Contractor

Market Capacity and Competition

The AFP market in the province is dominated by a few large players. There are only a limited number of firms equipped to handle large complex projects. During the various requests for qualifications, 47 general contractors and 14 facility management companies expressed interest. Only five general contractors were awarded over 80% of the 56 AFP projects that are either substantially complete or under construction. Similarly, two facility management companies were awarded 15 out of the 27 AFP contracts that have a maintenance component. To increase market capacity, Infrastructure Ontario has for the most part been announcing the "market pipeline" of AFP projects in advance of any RFP to allow companies time to team up and prepare for upcoming projects. Infrastructure Ontario began this initiative in the fall of 2010.

Significant Differences between Infrastructure Ontario's Estimates of Project Costs and Actual Contract Values

In order to assess the reasonableness of bids, a good estimate of project costs should be made before issuing a tender. For the 56 projects that were either substantially complete or under construction at the time of our audit, we compared the budgeted costs that had been approved by the Treasury Board to the contract values at financial close. As seen in **Figure 7**, we found that the total contract values were about $12 billion (or 27%) lower. The vast majority of the difference stemmed from long-term financing, maintenance and life-cycle costs in the Design Build Finance Maintain projects. Overall, this variance indicates that Infrastructure Ontario's budgeting practices are not accurately estimating these longer-term costs of AFP projects.

In 2013, the Ontario Internal Audit Division did a similar analysis. Its findings prompted it to conclude that opportunities existed to enhance budgeting practices, especially for long-term financing and life-cycle costs for Design Build Finance Maintain projects. It further concluded that improving the accuracy of initial budgets would allow the Ministry to provide better recommendations to the Treasury Board, leading to more informed decisions on the

Figure 7: Comparison of Approved Budget to Contract Value at Financial Close for AFP Projects Either Substantially Complete or under Construction

Source of data: Infrastructure Ontario

	AFP Model					Difference
	BF	BFM	DBF	DBFM	Total	($ million)
Over budget	7	0	0	0	7	(122)
Under budget <10%	9	2	2	3	16	238
Under budget ≥10%	7	1	1	19	28	12,134
Total	**23**	**3**	**3**	**22**	**51**	**12,250**

fiscal impact of these projects and the ability to fund other government priorities.

Having a good estimate of project costs before going to tender, in order to better evaluate the reasonableness of future bids, is especially important when the market may be dominated by only a few large players. Infrastructure Ontario prepares a pre-tender estimate for submission to its board of directors for approval to release the request for proposal. This pre-tender estimate is supposed to represent a high degree of certainty on the scope and design specifications of the projects. However, for the 56 projects that were either substantially complete or under construction at the time of our audit, we compared the pre-tender estimates to the contract value at financial close and noted that the pre-tender estimates in total were still higher by over $7 billion. Again, this variance was predominantly in the long-term financing, maintenance and life-cycle costs for the Design Build Finance Maintain projects.

RECOMMENDATION 5

In order to have a good estimate of project costs before seeking Treasury Board approval, as well as to better evaluate the reasonableness of future bids, Infrastructure Ontario should identify the reasons for the significant differences between actual contract values and its estimates of project cost, especially for projects that have long-term financing, maintenance and life-cycle costs. Infrastructure Ontario should accordingly review and update its processes for arriving at these estimates.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario will continue to seek out improvements to its budgeting practices, especially for long-term financing and life-cycle costs for Design Build Finance Maintain projects. Infrastructure Ontario strives to align with industry best practices and will continue to work on building our expertise in this area.

Evaluation of Bidders for AFP Projects

In our review of Infrastructure Ontario's evaluation of bidders' submissions in response to tenders that the agency had issued for the various AFP projects, we noted the following:

- **Infrastructure Ontario's system of scoring places more weight on a low bid than on technical merits:** In its evaluation of the bidders' submissions for projects in which the contractor is also the project designer, Infrastructure Ontario recognized the importance of carefully evaluating the technical merits of the proposal. But in practice, its scoring system gave the lowest bidder a decided edge, which often resulted in the strength of the submissions' technical aspects not being a significant factor. We noted a number of projects, for which the contractor was also the project designer, that were awarded to the lowest bidder that in some cases, had met only the minimum technical-design requirements for the project. We noted that the other bidders' submissions had significantly exceeded the project's minimum technical-design requirements.
- **Conflict of interest declarations were missing:** According to the agency's policies, each participant involved in evaluating submissions received in response to the request for qualifications/proposals that the agency issues for AFP projects is required to sign a conflict of interest declaration and disclose any relationships with any entities identified in the submissions. Evaluation teams typically include staff from Infrastructure Ontario; project sponsors; and various legal, financial, technical and cost consultants. However, in a sample of projects that we reviewed, Infrastructure Ontario was unable to provide us with signed conflict of interest declarations for a number of the participants involved in evaluating submissions, both at the request for qualifications and request for proposal stages.

In November 2005, Cabinet authorized the payment of design and bid fees to unsuccessful bidders on projects in which the contractor is also the project designer. The fee is to be up to 50% of the estimated proponents' bid cost. The bid fees, developed by Infrastructure Ontario based on market consultation, ranged from $400,000 to $800,000 for social infrastructure projects (such as hospitals and courthouses) to $2 million for civil projects (such as highway and transit projects). In order to qualify for the fee, bidders had to achieve a minimum technical score of at least 50%. In return for the bid fee, Infrastructure Ontario acquired all the intellectual property rights associated with the designs of the unsuccessful bidders. A letter from the Minister dated March 29, 2012, directed Infrastructure Ontario to report back to the Ministry in the first quarter of the 2013/14 fiscal year on the development and implementation of a formal process for managing the intellectual property rights acquired, to ensure that the government benefits from the designs when planning new projects. At the time of our audit, Infrastructure Ontario had not yet done this.

RECOMMENDATION 6

Infrastructure Ontario should review and update its system of scoring bidders' submissions to ensure that due consideration is afforded to both the technical merits of the submissions and to price.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario will undertake a review of its evaluation methodology. The current process requires that bidders meet minimum technical- and design-quality thresholds prior to being evaluated on price to ensure that the government or other public-sector client ultimately receives a high-quality, cost-efficient project. We are proud to report that approximately two-thirds of Infrastructure Ontario's projects are awarded to the bidder with the lowest bid and the highest-ranked design.

RECOMMENDATION 7

Infrastructure Ontario should ensure that participants involved in evaluating the submissions sign the required conflict of interest declaration that discloses any relationships with entities identified in the submissions.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario agrees with the importance of proper record-keeping. We recognized that there was incomplete diligence in the archiving of conflict-of-interest declarations and have taken steps to remedy this. We have streamlined our filing system and approach to document management, and have dedicated resources to manage this process. Along with a standardized filing procedure, there is now a close-out checklist, which includes the digital and physical storage of all related paperwork, that must be completed for all procurements.

RECOMMENDATION 8

Consistent with the March 2012 letter from the Minister of Economic Development, Employment and Infrastructure, Infrastructure Ontario should develop a formal process for managing the intellectual property rights acquired in exchange for the bid fees paid to unsuccessful bidders to ensure that the province receives any benefits from these rights in planning new projects.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario agrees with the importance of using the lessons learned from past projects to enhance the development and delivery of future projects. It is currently working

to implement this recommendation through the development of a centralized repository of design and bid information to support planning activities for future projects.

Monitoring of AFP Projects

On behalf of the province, Infrastructure Ontario signs project agreements for government assets, such as highways, courthouses and detention centres. The agency oversees these projects during construction, predominantly through external consultants. The consultants ensure that the projects are progressing in accordance with the project agreements and are in compliance with the design. For projects in which the contractor also operates and maintains the facility, Infrastructure Ontario is also responsible for overseeing the project's operation and maintenance phase. An exception is made for Ministry of Transportation projects, which the Ministry of Transportation oversees. Broader-public-sector sponsors of AFP projects, such as hospital corporations and colleges, are signatories on their project agreements. For the most part, although Infrastructure Ontario is represented on these projects' oversight committees, the broader-public-sector entities are responsible for project oversight during the construction and maintenance phases.

Infrastructure Ontario advised us that it also places reliance on project lenders for ongoing monitoring and enforcement during the construction term. However, based on our discussion with lenders, we noted that they are not actively involved in the day-to-day monitoring of projects. Apart from intermittent site visits, their technical advisers mainly rely on reports from the private-sector contractor to monitor construction progress and the continued financial strength of the contractor.

Problems in AFP Projects

The first AFP project delivered by Infrastructure Ontario came into service in late 2009. Sponsors of the 38 projects that were substantially complete whom we met with at the time of our audit did not highlight any significant deficiencies with respect to the workmanship and the quality of materials used in these projects.

However, prior to our audit, problems in the construction of a high-profile AFP project were identified. According to an interim report of an independent expert review panel tasked by the Minister of Transportation to review the problems associated with the Herb Gray Parkway during construction, the contractor obtained girders for use on the project from a supplier whose manufacturing processes had not yet been certified by the Canadian Standards Association. This brought the safety and durability of the girders, some of which had already been installed, into question. The panel recommended that either the deficient and non-compliant girders be replaced with new ones or remedial measures be taken to bring deficient girders up to standards at the contractor's expense. Infrastructure Ontario and the Ministry of Transportation informed us that the contractor would be replacing all girders obtained from their initial supplier with girders from another supplier.

AFP agreements require minor deficiencies (for example, touch-up painting, replacement of missing components, lighting repairs, installation and adjustment of doors or furniture, floor repairs) to be rectified 45 to 120 days after substantial completion.

Based on our review of projects that had reached final close, the average time to resolve such deficiencies was 13 months. Although the deficiencies did not negatively affect the projects' overall operation, two hospital projects had not reached final close three years after substantial completion because all minor deficiencies had not yet been resolved. For one of these projects, the construction contractor and the operations contractor were disputing who was responsible for the deficiencies.

According to project agreements, the sponsor is entitled to hold back payments amounting to 200% of the value of minor deficiencies. The relatively small cost of repairing minor deficiencies, however, may not be sufficient incentive for the contractor to return to repair them. For hospital corporations especially, the timely resolution of minor deficiencies is important since the Ministry of Health and Long-Term Care holds back 5% of total funding for the project until the project has reached final close, leaving the hospital responsible to fund this portion of the payment from substantial completion until final close.

RECOMMENDATION 9

Infrastructure Ontario should review the amount of the payments that it holds back at substantial completion of the projects it delivers to help ensure that minor deficiencies are corrected on a timely basis.

INFRASTRUCTURE ONTARIO RESPONSE

Through the AFP model, Infrastructure Ontario endeavours to appropriately transfer the risk for project delivery to the party most capable to bear it. We agree that timely resolution of minor deficiencies is important to ensure project completion, and we will review our current policy regarding hold backs.

Project Reporting

Infrastructure Ontario produces a monthly construction status report for each project. These reports are also shared with project sponsors. Based on our review of a sample of the reports, we noted instances of incorrect or incomplete reports. For example, in some of the reports the budgeted costs for the projects did not agree with their most recent budgets, and the list of change orders related to certain projects was not complete. We also noted that other required information—such as the approved budget and the number of change orders processed to date—was missing from the reports.

During our audit, we noted that information on projects was stored in multiple locations or databases, including staff personal computers and emails. There was no consistent structure or centralized database for this information. This created a real risk of a loss of knowledge on projects if a staff person responsible for monitoring a project were to leave the agency. In one instance, Infrastructure Ontario was unable to explain to us the rationale behind decisions for a particular project, since all personnel who had worked on this project were no longer with the agency. Gathering information on projects was also time-consuming. For instance, it took Infrastructure Ontario two months to assemble a listing of change orders associated with past and current AFP projects for us.

We also noted that project governance documents (that is, memorandums of understanding, project implementation plans, project charters) between Infrastructure Ontario and the project sponsors are not always executed in a timely manner. These documents are intended to lay out the roles, responsibilities and expectations of each party with respect to the delivery of the project. In several cases, documents had been executed a number of months after the construction of the project had been begun, or not at all.

Since 2009, internal reviews commissioned by Infrastructure Ontario have also noted the above deficiencies in project reporting, but Infrastructure Ontario has yet to resolve these weaknesses.

RECOMMENDATION 10

In order to properly monitor the construction phase of projects, Infrastructure Ontario should ensure that information on individual projects is stored in a centralized database using a consistent structure, and that its construction status reports are accurate and complete.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario's construction-monitoring program has evolved to ensure that critical project information is stored in a centralized database. We will continue to expand our monitoring and reporting efforts to include quality controls to ensure the completeness and accuracy of information being reported.

Debt Related to AFPs

As noted earlier, typically payments for projects procured using the AFP model are made only upon substantial completion of the projects. In cases where the AFP contractor is also responsible for the maintenance and/or operation of the projects, the contractor is usually paid monthly for these functions over the 30-year term of the contract.

Liabilities and commitments associated with AFPs are recorded in the province's Public Accounts. According to the March 31, 2014, Public Accounts of the province, the AFP projects that were either substantially complete or under construction have left a long-term liability of nearly $7.5 billion and approximately $16 billion in commitments, mainly associated with the financing, maintenance and operation of projects, for future governments to deal with.

However, the actual financial impact of AFP projects is higher than the nearly $7.5 billion given in the Public Accounts, since these amounts do not include funds that were borrowed to make the payments to AFP contractors when the various projects reached substantial completion. These borrowed amounts, which we estimate to be an additional $5 billion, are part of the total public debt recorded in the March 31, 2014, Public Accounts.

Appendix 1—AFP Delivery Models

Source of data: Infrastructure Ontario

Build Finance (BF): Typically considered for smaller projects that involve renovations or significant addition or expansion of existing infrastructure. The private sector is responsible for construction and financing during the construction period, and the project is paid for by the public sector at the completion of construction.

Design Build Finance (DBF): The private sector is generally responsible for design, construction and financing during the construction period. The project is paid for by the public sector at the completion of construction.

Build Finance Maintain (BFM): The private sector is generally responsible for the construction and maintenance of the project and provides long-term financing. The project is paid for by the public sector in installments over a fixed period, usually 30 years. The public-sector sponsor is responsible for developing the detailed design of the project.

Design Build Finance Maintain (DBFM): Typically considered for large projects involving new construction on a vacant site. The private sector is generally responsible for design, construction, long-term financing and maintenance. The project is paid for in installments over a fixed period, usually 30 years.

Design Build Finance Maintain Operate (DBFMO): In addition to being responsible for design, construction, long-term financing and maintenance, the private sector also operates the facility.

Appendix 2—Categories of Possible Project Risks

Source of data: Infrastructure Ontario

Risk Category	Description
Policy and strategic	The risk that changes in government policy/strategy or priorities will result in delays or cancellation of a project.
Design and tender	The risk that gaps in project design, specifications and/or documentation will lead to change orders by project owner or uncertainty for project contractor. Also covers the risk that inability to manage the project tender process can lead to delays.
Site conditions/environmental	The risk that assessment of site conditions is incomplete, unforeseen conditions exist, geotechnical or environmental problems occur leading to additional project costs and/or delays.
Construction	The risk that construction cost estimates are incorrect or that changes to schedule occur as a result of inability to source materials, adverse weather conditions, force majeure and other events.
Equipment	The risk that equipment procurement or co-ordination costs are higher than expected as a result of selection changes by owner or delays in the procurement by owner as a result of lack of coordination with project contractor.
Permits and approvals	The risk that Ontario Building Code requirements are not met, or that municipal and other building permits are not acquired in time, resulting in project delays.
Completion commissioning	The risk that deficiencies in construction exist, and that commissioning activities do not occur on schedule, leading to delays and/or additional costs.
Labour	The risk that strikes occur (general or contractor-specific) or that labour is unavailable. These risks affect both the construction and operations phase in the case of a DBFM project.
Project agreement	The risk that ambiguities in agreements (project agreement under BF and DBFM, and "stipulated sum contract" under the public-sector model) lead to confusion or disputes that cause delay or increase project costs.
Life-cycle and residual	The risk that preventive maintenance and emergency maintenance activities are not performed to specifications or that cost of performing maintenance exceeds the original budget. The risk that the facility is not handed back to the owner at the conditions set in the project agreement.
Operational	The risk that operating costs exceed estimates or that the services do not meet the owner's requirements.

Chapter 3

Ministry of Economic Development, Employment and Infrastructure

Section 3.06

Infrastructure Ontario's Loans Program

Background

Ontario Infrastructure and Lands Corporation, commonly referred to as Infrastructure Ontario (IO), is a Crown corporation established by the *Ontario Infrastructure and Lands Corporation Act, 2011* (Act). IO is governed by a board of directors that is appointed by the Lieutenant Governor in Council and accountable to the Minister of Economic Development, Employment and Infrastructure.

IO's role is to manage Ontario's public infrastructure, real estate and government facilities, and to help finance public infrastructure renewal. It has four main lines of business that deal with both government and non-government clients: Real Estate Management, Ontario Lands, Project Delivery, and Lending (the Loans Program).

IO lends money to municipalities, the broader public sector and the not-for-profit sector in Ontario for the development of infrastructure. The Loans Program's 2013/14 budget was $9.85 million. IO's Lending department employs 28 full-time-equivalent staff, including loan officers, commercial underwriters, client-relations personnel, credit risk analysts, project managers, treasury analysts and legal advisors (see **Figure 1**).

History of Infrastructure Ontario and the Loans Program

The Loans Program had been lending infrastructure funds to municipalities under several other corporate structures before IO was created in 2011. In 2004, the Ontario Strategic Infrastructure Financing Authority (OSIFA) was formed to manage municipal loans formerly granted under the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA). OSIFA was established to expand the OMEIFA's mandate from one of lending strictly to Ontario municipalities to one that included borrowers in the broader public and not-for-profit sectors as well. Between 2006 and 2011, OSIFA and several other crown agencies were amalgamated, first forming the Ontario Infrastructure Projects Corporation and ultimately creating the Ontario Infrastructure and Lands Corporation (referred to as IO throughout the report).

Expansion of Loan Portfolio

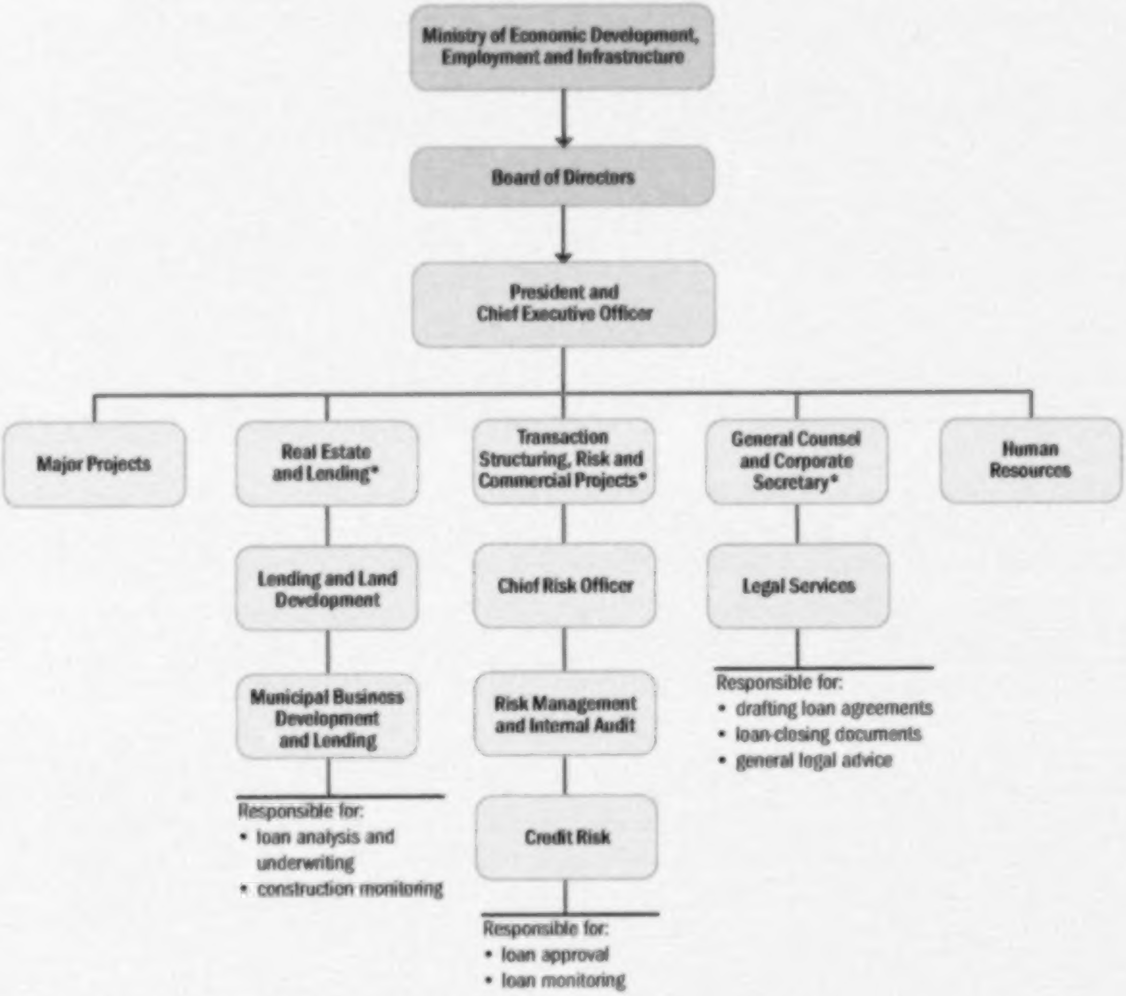
When OSIFA was formed and took over the Loans Program in 2004, it was administering a portfolio of approximately $514 million in municipal loans. Since then, the types of borrowers eligible for the program have grown from solely municipalities to 10 eligible sectors. The eligible sectors, which are outlined in the Act and further detailed in Ontario Regulation 210/11 of the Act, are as follows:

- municipalities;
- universities and affiliated colleges;
- municipal corporations (including power generation and local energy-distribution companies and district energy corporations);
- local services boards;
- not-for-profit long-term-care homes and hospices;
- not-for-profit social and affordable housing providers;
- Aboriginal health access centres;
- community health and social service hubs;
- not-for-profit arts training institutes; and
- not-for-profit sports and recreation organizations.

Entities that fall into one of the above sectors are eligible to borrow money from IO. In addition, certain other entities (such as the 2015 Pan American Games Organizing Committee and MaRS Discovery District) have been named eligible borrowers under the Act and its regulations. The Royal Conservatory of Music was made an eligible borrower through an

Figure 1: Infrastructure Ontario Organization Chart

Source of data: Infrastructure Ontario


Ministry of Economic Development, Employment and Infrastructure
Board of Directors
President and Chief Executive Officer
Major Projects
Real Estate and Lending*
Transaction Structuring, Risk and Commercial Projects*
General Counsel and Corporate Secretary*
Human Resources
Lending and Land Development
Chief Risk Officer
Legal Services
Municipal Business Development and Lending
Risk Management and Internal Audit
Credit Risk
Responsible for:
• loan analysis and underwriting
• construction monitoring
Responsible for:
• loan approval
• loan monitoring
Responsible for:
• drafting loan agreements
• loan-closing documents
• general legal advice

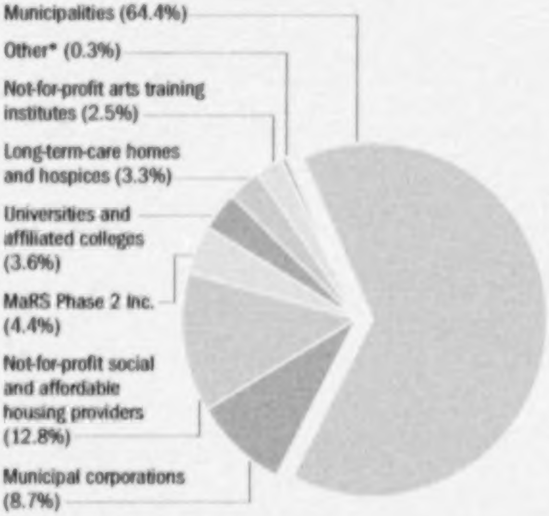
* Divisions typically involved in administering the Loans Program.

Order in Council (OIC), under a section of the Act that allows the government to specify other activities in which IO may engage based on Cabinet approval.

The expansion of the Loans Program to the broader-public and not-for-profit sectors has given borrowers who previously may not have had an external credit rating access to affordable financing through the province's high credit rating and low cost of capital. Under the Loans Program's expanded mandate, IO has a portfolio of 806 loans advanced to 353 borrowers and has approved loans totalling more than $7 billion since the inception of the Program. As of March 31, 2014, IO's balance of outstanding loans receivable totalled approximately $4.9 billion. **Figure 2** shows this balance broken down by sector.

Figure 2: Total Outstanding Loan Advances by Eligible Sector, as at March 31, 2014 (%)

Source of data: Infrastructure Ontario



* Includes the following sectors: Aboriginal health access centres; community health and social service hubs; not-for-profit sport and recreation organizations; local services boards.

Credit Risk Framework

IO's Credit Risk Policy outlines a credit risk management strategy, roles and responsibilities, internal controls, and requirements for reporting to its board of directors.

This policy defines credit risk as "the potential for default or non-payment by borrowers of scheduled interest or principal repayments." In addition to this general policy, IO has policies on credit risk and lending for each of the 10 eligible borrowing sectors. Each policy outlines the sector's general credit strengths and risks as well as common individual risks within it. The policies also outline IO's maximum exposure limits for individual loans and for each sector overall, debt service coverage ratio limits for potential borrowers within the sector according to their risk class, and other sector-specific limitations.

IO classifies its borrowers into three risk tiers that are based on the borrowing entity's relative level of government oversight and funding. Borrowers rated "primary" include municipalities, universities and affiliated colleges, and local services boards (who provide municipal-level services outside of incorporated municipalities, in rural areas, for example). Loans to these borrowers are considered the least risky because they have ongoing, consistent revenue streams that allow them to service debt on a long-term basis. Borrowers rated "secondary" include some municipal corporations (for example, local energy-distribution companies), long-term-care homes, not-for-profit social housing providers and Aboriginal health access centres. These borrowers are in the secondary risk tier because, although they have some government oversight and financial support, the government has no legislative requirement to support them. Borrowers rated "tertiary" include some municipal corporations (for example, power generators), district energy corporations, not-for-profit arts training institutes, hospices, and not-for-profit sports and recreation organizations. Tertiary borrowers are considered the highest credit risk because they generally receive little or no government capital funding and must rely on self-generated revenues to service their debt.

Audit Objective and Scope

The objective of our audit was to assess whether Infrastructure Ontario (IO):

- issues loans to eligible borrowers at terms that reflect the associated risks; and
- effectively monitors the ongoing performance of outstanding loans and takes appropriate actions when risks warrant.

Senior management at IO reviewed and agreed to our audit objective and associated audit criteria.

Our audit work was conducted primarily at IO's two main Toronto offices between January and June of 2014. We reviewed relevant documents and administrative policies and procedures, analyzed pertinent information and statistics, and interviewed appropriate staff from IO as well as other key stakeholders. We examined the loan approval process for a sample of loan application files approved within the last five years and reviewed the monitoring process for a sample of municipal and non-municipal loans issued, focusing mainly on higher-risk, non-municipal loans. We also examined IO's loan-monitoring reports, including its Loan Watch List. In addition, we looked at relevant internal audit reports and an external consultant's report on the results of a review on IO's lending and credit review processes that was conducted from June to November of 2013, along with management's action plan to address the report's findings.

Summary

IO needs to enhance its credit-risk assessment models (particularly for non-municipal borrowers), and update and strengthen its credit-risk policies. In addition, IO needs to formalize its loan-monitoring procedures, which were not well documented at the time of our audit. We further noted that IO should have a monitoring tool to track and monitor compliance with non-standard loan covenants within certain loan agreements.

Generally, we found that IO's policies and procedures for lending and approval were reasonable and sufficient for ensuring that loans to eligible borrowers are made at terms commensurate with the associated risk. IO has strengthened its monitoring over the past couple of years through the separation of the monitoring function from the underwriting and credit review functions, and through the development of various loan portfolio monitoring reports and tools, including its Loan Watch List for troubled loans. The vast majority of borrowers are making their payments as required, and loan losses have historically been rare and quite low. The higher-risk loans in IO's portfolio were loans that did not initially fall into IO's eligible borrowing sectors.

Higher-risk Loans

The higher-risk, non-municipal loans that we examined were being monitored by IO, and it had actions underway for borrowers who were having difficulty meeting the conditions of their loan agreements. At the time of our audit, IO was using its Loan Watch List to track four loans experiencing difficulties. The combined outstanding balance of these loans as of March 31, 2014, was approximately $300 million. The two most significant high-risk loans on the Watch List had been made to borrowers who did not fall into any of IO's 10 eligible borrowing sectors, but who had been made eligible through other legal means to support the government's plans and priorities, such as support for the arts and for research and innovation.

MaRS Phase 2 Loan

A loan for up to $235 million ($216 million was outstanding as of March 31, 2014) to a subsidiary of MaRS Discovery District, a not-for-profit organization that would not otherwise have been eligible for the Loans Program, was made possible by a regulatory amendment. MaRS Discovery District sought the loan to help restart the construction of a commercial office and research tower—which was to be built, owned and operated by a private-sector developer—after the developer was unable to secure financing to complete the construction, which was then halted during the economic downturn in 2008.

IO approved the loan request in May 2010. Construction resumed in August 2011 after MaRS Discovery District made favourable concessions to the developer to avoid further construction delays and a debt service guarantee from the Ministry of Research and Innovation was signed in lieu of an 80% pre-leasing loan condition. IO monitored the project throughout construction in accordance with its policies and procedures for managing construction risk.

The project is now complete and the building ready for occupancy, but the amount of space leased out so far is not sufficient to support loan-interest payments, which started to become due in January 2014. The most significant third-party leases signed so far are both with publicly funded organizations (Public Health Ontario and the Ontario Institute for Cancer Research). These leases were committed to before construction began in 2007 at rates that exceed current market rents for this type of property. MaRS has not been able to find additional tenants at these rates, which could not be lowered because of the concessions made to the developer to enable MaRS to recommence construction in 2011.

With the Ministry of Research and Innovation's having to honour a guarantee it provided to facilitate the loan along with the risk that MaRS may require additional funding to support its operations, the Minister of Infrastructure asked IO to explore options that would preserve both the project and the loan while reducing the government's exposure. In April 2014, the Ministry of Research and Innovation and the Ministry of Infrastructure prepared a joint submission to Treasury Board that analyzed each option under consideration and concluded that the best option was for the Ministry of Infrastructure to acquire the property if it could do so economically. Negotiations with stakeholders were ongoing as of August 2014 when we completed our audit work, and a conditional agreement to buy out the developer's residual interest was announced on September 23, 2014.

The lack of transparency around the policy objectives and intended benefits to be obtained for the significant risks assumed in providing the loan and guarantee creates the perception of a bailout of a private-sector developer. Whether the benefits realized from this transaction will ultimately outweigh the risks and costs assumed remains to be seen.

Other Higher-risk Loans

Also on IO's Loan Watch List are two older loans made to not-for-profit organizations with a combined balance of approximately $75 million outstanding as of March 31, 2014. Both loans were approved based on aggressive assumptions about donation revenues that have not materialized to date. Approval by Order-in-Council was required in order for one of these borrowers to become eligible for the Loans Program. Neither borrower would have qualified for loans under IO lending policies regarding donation revenues that were in place at the time of our audit. Neither loan is currently in default.

The remaining loan on the Watch List, with an outstanding balance of approximately $12 million as of March 31, 2014, was being tracked because revenues from the infrastructure project funded by the loan were less than the amount projected by an engineering study conducted at the project proposal stage.

Majority of Loans are to Low-risk Municipalities

Around 64% of the Loans Program's portfolio comprises loans to municipalities—relatively low-risk borrowers whose financial condition is also monitored annually by the Ministry of Municipal Affairs and Housing. We found that the procedures in place were being followed for the municipal loans we examined, and that further enhancements to the program's lending policies were underway.

OVERALL INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario (IO) appreciates the hard work and insights of the Auditor General's Office in examining IO's Loans Program. Our management team is also grateful for the recognition of the contribution the Program makes to many communities (big and small) across the province. Modern and efficient public infrastructure is key for building and maintaining a strong economy, prosperous communities and a clean, healthy environment.

Together with our clients, IO has helped finance more than 1,000 projects—from the construction of roads, bridges and facilities to the acquisition of assets, such as vehicles and equipment, as most capital expenditures are eligible. IO subjects borrowers to detailed loan underwriting and an independent credit review that confirms the financial soundness of the loan application. In addition to reviews of loans in the operational phase, we also closely monitor the delivery of projects in construction through the use of independent project monitoring and project reporting requirements. For any loans at risk identified in the construction or operating phases, IO works proactively with borrowers to develop viable solutions to allow the project to continue to deliver important services to Ontarians and ensure that the loan is paid back in full.

IO will undertake the Auditor General's recommendations to further improve our Loans Program. We will act on each and every recommendation in our commitment to continuously improve the services we provide the province.

In the spirit of continuous improvement, IO engaged a reputable external accounting firm through a competitive process in June 2013 to review the Loans Program. The consultant examined the Loans Program from an end-to-end perspective and assessed IO's practices against leading practices throughout the industry. Since then, we have been working to address the improvements identified by the external review and will complete that action plan by the end of the 2014/15 fiscal year.

Detailed Audit Observations

Municipal Loans

Over the past 10 years, 231 of Ontario's 444 municipalities have entered into financing agreements under the Loans Program administered by Infrastructure Ontario (IO). As of March 31, 2014, IO's outstanding loans to municipalities totalled approximately $3.1 billion, accounting for roughly 64% of its total outstanding loans.

Municipalities are subject to regulatory limits on borrowing, are required by legislation to present annual balanced budgets, and have the ability to generate revenue from their tax bases. For these reasons, IO assesses municipal loans as having the highest credit quality (or lowest risk) of all its loans.

We examined a sample of municipal loan files and risk-assessment tools along with loan performance to date and found that IO's general risk assessment for municipal loans appears appropriate. To date, there have been no defaults on municipal loans.

There was a structured risk-assessment process in place for the municipal loans we examined. IO has a credit-rating model for municipalities that was developed by the Ontario Financing Authority and that uses data collected by the Ministry of Municipal Affairs and Housing (MMAH), the government of Ontario's main liaison with municipalities in the province. MMAH manages the annual Financial Information Return (FIR) process, the main tool for collecting financial and statistical information on municipalities. IO's credit-rating model involves calculating seven key financial ratios using data derived from the FIR and then assigning a credit rating based on the cumulative average score of those ratios. We found that the credit-rating model had been used in the credit analysis for all the municipal loans that we examined.

In addition to IO's internal credit ratings, larger municipalities are rated by external debt-rating services. IO's municipal underwriting process also includes MMAH reviews of borrower applications, in which MMAH provides feedback on the municipality's financial status, any impediments to the loan and any concerns regarding the loan application.

Currently, IO monitors municipal loans through an annual review of audited financial statements, data collected in the FIR and discussions with MMAH, where appropriate. IO's Credit Risk department uses the annual review to identify borrowers with low credit scores and assess any potential impact this may have on debt repayment. We found that although IO had sufficient procedures in place to monitor municipal loans, they could be better documented.

RECOMMENDATION 1

To ensure that outstanding municipal loans are effectively monitored, Infrastructure Ontario should formalize and document its monitoring procedures regarding municipal loans.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario (IO) monitors the loan portfolio across all sectors through a quarterly loan portfolio review. The objectives of the loan review are to identify negative trends so that timely action can be taken to minimize potential credit loss and escalate borrowers identified as having potential loan payment difficulties to our Loan Watch List to receive a more thorough review. IO thanks the Auditor General for this recommendation and agrees with the need to document our current monitoring procedures directly in our Credit Policies. All loan monitoring activities will be documented in IO's Credit Policies and Operating Standards and Procedures in 2014.

Non-municipal Loans

Analysis and Approval

IO does not have a standard credit-risk assessment model in place for non-municipal borrowers because the organizational structures, financial reporting requirements, and financial capabilities and risks of these borrowers vary widely.

When a potential non-municipal borrower submits a loan application to IO, it is assigned to an underwriter for credit analysis. The underwriter prepares a summary memo for IO's Credit Review Committee (CRC), a senior management committee whose members include IO's Chief Risk Officer, Chief Financial Officer and Senior Vice President of Transaction Finance, General Counsel, plus a representative from the Ontario Financing Authority.

The summary memo outlines the credit analysis, including a summary of the loan application's financial details, the applicant's credit-risk score, a summary of the infrastructure project details, an outline of both the applicant's and the project's governance structures, and a recommendation on whether to approve the application or not, which includes a summary of its strengths and challenges. This information is followed by a detailed risk analysis (credit and otherwise) prepared by the underwriter in accordance with IO's credit risk policies (last updated November 2012) and underwriting guidelines (last updated September 2011), with input from legal, project-management, environmental and appraisal experts within IO. The summary memo recommends general security requirements and loan covenants plus any additional security or covenants deemed appropriate. For construction projects worth more than $50 million, IO requires that a due diligence report on the project be prepared by a third party, such as an architectural or civil engineering firm. We found that the required project reports were on file for all loans over $50 million that we examined in our sample.

IO's Credit Risk department reviews the summary memo to ensure that IO's credit policies have been adhered to before presenting it for approval.

Loans of up to $2 million are approved by the Chief Risk Officer, loans of up to $25 million are approved by the CRC and loans of more than $25 million are approved by the board of directors. Approval of the loan is recorded in the applicable committee meeting minutes.

We found that the appropriate delegated authority had properly approved all of the loans in the sample we examined. We also found that the loan applications and risk analyses in our sample were generally well-documented, both in the loan files and the summary memos. In some of the older files we examined, we noted that the assessed credit-risk score was not always evident in the summary memo and certain financial analyses were not as comprehensive as those carried out for more recent loans. In one of the files in the sample we examined, a $7-million loan approved in 2011, we found deficiencies in the underwriting process that accepted overly optimistic revenue projections. This loan's risk rating was not adequately supported by the information and sensitivity analysis in the summary memo. It is currently on IO's Loan Watch List.

Monitoring

To provide an independent review and challenge of its underwriting process, IO transferred the responsibility for credit application review and loan monitoring from its Underwriting department to its Credit Risk department in April 2013. The Credit Risk department is developing and refining a number of loan-monitoring tools and other reporting tools, but its loan-monitoring policies and procedures were still informal at the time of our audit.

The Credit Risk department's current loan-monitoring function includes the following:

- assessing the ongoing financial viability of the borrower throughout the term of the loan;
- ensuring compliance with the financing agreement's payment terms, restrictions and covenants;
- identifying negative trends in the borrower's financial performance in order to facilitate early intervention when it is required; and
- identifying borrowers with potential loan repayment difficulties and adding them to the Loan Watch List (introduced in early 2012).

IO's Lending department is still responsible for monitoring projects under construction. It reviews the project reports it receives from borrowers each month when their loan money is advanced. Depending on the project's complexity, monitoring is performed by a project manager in the Lending department, a third-party project monitor engaged by the Lending department but paid for by the borrower, or a combination of the two.

The Credit Risk department tracks the status of all of IO's non-municipal borrowers. Standard loan agreement reporting requirements (for example, audited financial statements) are tracked through a spreadsheet that is also used to assess basic covenants and ratios (debt service coverage ratio, current ratio and debt-to-capital ratio) against established limits. However, IO did not have a formal monitoring process in place to track and monitor compliance with those covenants.

In our examination of the loan analysis and approval processes, we found a number of instances in our sample where non-standard restrictions or covenants had been included in loan-financing agreements to address specific risk areas. However, we did not see evidence that IO was monitoring compliance with those covenants.

In addition to the monitoring spreadsheet, IO has developed loan-monitoring reports to keep senior management and the board of directors up-to-date. The Quarterly Review Report summarizes the performance of all non-municipal loans in four categories: construction project status (where applicable), financial review, payment compliance and covenant compliance. Loans for which serious financial deterioration or concerns over debt servicing have been noted in the Quarterly Review Report are escalated to the Loan Watch List. Borrowers on the Loan Watch List may not be in default, but are considered to have a high level of uncertainty for future debt repayment.

As of March 31, 2014, four loans were on IO's Loan Watch List. Their combined outstanding balances totalled approximately $300 million—approximately 15% of IO's total non-municipal loans.

Two loans on the Watch List were to borrowers that did not fall into any of IO's 10 eligible borrowing sectors, but had been made anyway because they supported the government's plans and priorities, such as support for the arts and for research and innovation. One of the borrowers, the Royal Conservatory of Music, was made eligible for the Loans Program by Order-in-Council in July 2007. The other, MaRS Phase 2 Inc. (discussed in more detail in a later section), was made eligible through the amendment of a regulation in February 2010. As we have already noted, IO's lending policies for the 10 eligible sectors outline specific risks and loan thresholds for each; loans to borrowers outside the eligible sectors are inherently riskier.

In addition, we noted that loans, totalling $75 million, to the Royal Conservatory of Music and another not-for-profit organization were approved based on projected fundraising donations that have fallen below expectations. In January 2012, IO adopted a donation/fundraising underwriting guideline that limits the amount that can be borrowed based on fundraising projections. Neither of the loans would have qualified under the new donation revenue limits. Although neither of these loans is in default, both are being tracked on IO's Loan Watch List.

The remaining loan on the Loan Watch List, with an outstanding balance of approximately $12 million, was being tracked because revenues from the infrastructure project funded by the loan were less than the amount projected by an engineering study conducted at the project proposal stage.

IO's October 2012 *Valuation Allowance Policy* outlines the establishment of a general allowance provision for its loans. This is based on financial industry statistics on non-government-organization default and loan-loss rates published by Moody's, an external debt-rating agency. In addition, IO establishes specific allowances for problem loans according to the borrower's ability to service the loan within its current financial structure. IO's Finance department determines allowance amounts through an analysis of the loans on the Watch List and discussions with the Credit Risk department, the Credit Review Committee and the board's Credit and Risk Management Committee. As of March 31, 2014, general and specific allowances for doubtful accounts totalled $11 million. Based on the information available at the time of our audit, we found no evidence suggesting that IO needed to increase its allowances.

Review of IO's Credit and Lending Review Process

In June 2013, IO hired an external consulting firm to conduct a review of its lending and credit review processes. The purpose of this review was to help IO "formalize the objectives of the lending program and define the program's target state with respect to governance, processes, credit risk management, organizational structure and portfolio management."

The consulting firm reported its findings and made 36 recommendations to IO's board in November 2013. Several of the recommendations related to our audit scope and findings, with many of them focusing on refining, enhancing and formalizing processes, policies and procedures. These recommendations included the following:

- refining the Credit Risk Policy to be more prescriptive and to cover all relevant loan processes (risk assessment, adjudication, and loan monitoring and reporting);
- enhancing existing policies and procedures to facilitate the consistent use of underwriting and credit assessment, including detailed procedures covering risk-rating assessments and financial analysis to ensure the rating model is replicable;

- establishing a minimum global debt service coverage ratio requirement and considering a maximum loan-to-value requirement driven by IO's level of risk for each sector;
- formalizing the current monitoring process to identify potential problem accounts in a systematic way, including identifying actions to be taken when a covenant is breached or a loan is in default; and
- implementing an annual loan review process that includes reassessing the risk profiles of borrowers.

In March 2014, IO management presented an implementation plan to address all 36 of the report's recommendations to its board of directors, with an April–September 2014 timeline.

RECOMMENDATION 2

To ensure that loans issued to eligible borrowers reflect the associated risks, and that outstanding loans are effectively monitored, Infrastructure Ontario should implement all components of its action plan to address the deficiencies identified in the 2013 consultant's review of its credit and lending processes.

INFRASTRUCTURE ONTARIO RESPONSE

As part of Infrastructure Ontario's (IO) commitment to continuous improvement, we initiated an external review in June 2013 in an effort to further improve our Loans Program. As noted in the report, IO immediately began to address all issues identified in the review. IO agrees with the importance of completing its action plan relating to the 2013 external review of its lending practices. Many action plan items are now complete, with the remaining in progress and planned for completion by the end of the 2014/15 fiscal year.

RECOMMENDATION 3

To ensure all loan covenants are being monitored and appropriate action is taken when associated risks warrant it, Infrastructure Ontario should develop a tracking tool to record and monitor all non-standard covenants that are included in signed loan agreements.

INFRASTRUCTURE ONTARIO RESPONSE

Infrastructure Ontario (IO) agrees with the importance of improved monitoring of non-standard covenants. IO currently monitors financial covenants through our quarterly loan portfolio review and escalates loans in line with risk to the Loan Watch List report. At the time of the Auditor General's review, IO had procured a new loan system capable of tracking and monitoring compliance of standard and non-standard loan covenants by way of checklists. The checklists include all covenants per the financing agreement and due dates associated with each for tracking covenants via the reports.

The new loan system became operational on September 4, 2014, and all covenants (standard and non-standard) will be tracked through a full loan Annual Review Process to be implemented in the 2014/15 fiscal year.

Loan to MaRS Phase 2 Inc.

MaRS Discovery District (MaRS) is a not-for-profit corporation formed in 2000 by a group of prominent business leaders and researchers. "MaRS" was originally an acronym for "medical and related sciences." The corporation's objective was to establish a large research and innovation hub focusing on technology commercialization in a downtown area of Toronto that is home to the University of Toronto and numerous research hospitals. This hub was to be built over several phases using private-sector donations along with federal and provincial contributions.

Phase 1 included the construction of three new buildings and the retrofit of the former Toronto General Hospital building to form the MaRS Centre, a research tower and "convergence centre/incubator." The MaRS Centre was completed in late 2005. Its construction was partially debt-financed along with the assistance of the federal government, the MaRS founders, the University of Toronto, and approximately $55 million in contributions from the province to help with land acquisition, construction costs and an initial operating grant. The province also contributed just over $16 million toward the acquisition of the lands that Phase 2 is built on, which it announced in the 2006 budget. The University Health Network occupies much of the research tower of the Phase 1 buildings.

In August 2007, following a competitive selection process, MaRS entered into an agreement with a private-sector developer for the construction of Phase 2 of its downtown research and innovation hub. Phase 2 would include a 20-storey commercial office building and laboratory space next to the MaRS Centre on former Toronto General Hospital lands that had been sold, with conditions, to MaRS by the University Health Network for $7.525 million (see **Figure 3** for a timeline of the events discussed in this section). Phase 2 was to be 100% financed, built and operated by the private-sector developer, but when the global economic crisis hit in late 2008, the developer was no longer able to obtain the necessary financing, and construction came to a halt. At this point, the complex had been built up to street level and about $90 million had been invested, according to the developer.

In December 2008, MaRS approached IO about the possibility of obtaining financing to complete the construction of Phase 2, and submitted a formal financing proposal to the Ontario Infrastructure Projects Corporation, a predecessor agency to IO, in January 2009. In the initial analysis of the proposal, Loans Program staff outlined that MaRS would need to show that it could meet the minimum debt service coverage ratio of 1:1 (the ratio of cash available for debt servicing to total interest and principal payments—in this case a breakeven level) to minimize the loan's default risk. (This ratio increased to 1.2:1 after year 1.) In addition, MaRS would be required to pre-lease 80% of the building's available space at an average rent of $29 per square foot before any construction funds could be advanced. The purpose of this requirement was to minimize the tenancy risk associated with the project by demonstrating that MaRS could attract enough tenants with high-quality credit to sign long-term leases at the proposed rate of $29 per square foot (operating costs were estimated at an additional $31 per square foot). Although $29 per square foot was approximately $4 more per square foot than the Toronto market average for renting office space at the time, and $6–$9 more per square foot more than the rents at other MaRS buildings, an external real estate advisor assessed it as a reasonable rate as of March 2010 for a special-purpose building designed to accommodate modern research laboratories.

When MaRS originally approached IO in December 2008, it had secured two "anchor tenants" to commit to leasing space in Phase 2. Both tenants, the Ontario Agency for Health Protection and Promotion (Public Health Ontario) and the Ontario Institute for Cancer Research (OICR), are provincially funded organizations. The government had already approved negotiations to move Ministry of Health and Long-Term Care staff that would be joining the newly formed Public Health Ontario from another downtown Toronto location, along with the Ministry's central public health labs from inadequate and deteriorating facilities in Etobicoke to the proposed MaRS Phase 2 building in June 2007 (see Appendix). OICR was already leasing lab space in MaRS Phase 1, but was looking for more space to meet the demands of an expanding mandate. When MaRS submitted its financing proposal to IO in January 2009, the lease commitments for these two tenants represented approximately 40% of the building (Public Health

Ontario's lease was eventually signed for $29 per square foot; OICR's for $30 per square foot).

The other risks that Loans Program staff looked at in the initial analysis of MaRS's financing proposal related to the 2008 suspension of construction. These risks were assessed as "minimal" since 90% of the project had been tendered, construction plans had been approved by the municipality,

Figure 3: MaRS Phase 2 Inc. Loan Timeline

Prepared by the Office of the Auditor General of Ontario

Mar. 2006	In its 2006 budget, government announces support for the MaRS Phase 2 project with a $16.2 million grant for the acquisition of the land to be developed.
May 2006	Treasury Board approves negotiations to more PHO offices and central public health laboratories to proposed MaRS Phase 2 building.
Aug. 2007	MaRS Discovery District enters into development agreement with private-sector developer for construction of commercial office building dedicated to scientific research.
Nov. 2008	Private-sector developer's project financing dries up as a result of global economic crisis; building construction halted.
Dec. 2008	MaRS Discovery District approaches IO about financing loan.
Jan. 2009	MaRS Discovery District submits formal financing proposal and IO performs initial financial assessment.
Feb. 2010	Amendment made by Ontario Regulation 220/08 to the *Ontario Infrastructure Corporation Act, 2006*, naming MaRS Discovery District and its subsidiaries as eligible borrowers.
Mar.–May 2010	IO performs detailed underwriting analysis of MaRS Discovery District's proposal.
May 19, 2010	IO Credit Risk Committee recommends to IO board Credit and Risk Management Committee that a $235-million loan be approved.
May 28, 2010	Credit and Risk Management Committee approves $235-million loan (including restriction that 80% of the building must be pre-leased before first instalment of loan can be advanced).
July 2011	MaRS Phase 2 Inc. formed as subsidiary of MaRS Discovery District, to become named developer and borrower.
Aug. 2011	Ministry of Research and Innovation (Ministry) signs Debt Service Guarantee with MaRS Phase 2 Inc. to begin in September 2014 as required, in lieu of IO's 80% pre-lease restriction being met.
Sept. 2011	Construction recommences.
Sept. 2011–Dec. 2013	Construction continues with regular management reports and monitoring reports submitted to IO.
Sept. 2013	IO sends letter to MaRS Phase 2 Inc. inquiring about delays in lease-up of building.
Dec. 2013	Construction completed and occupancy permit received.
Dec. 16, 2013	IO sends letter to MaRS Phase 2 Inc. outlining first interest-only payment due in January 2014.
Dec. 19, 2013	MaRS Phase 2 Inc. responds to IO's letter with request to modify terms and increase amount of loan to fund tenant inducements (fitting-up of space, etc.).
Dec. 31, 2013	Ministry signs amendment to Debt Service Guarantee making it effective January 2, 2014, instead of September 2014 to cover MaRS' payment obligations as required.
Jan. 2014	MaRS Phase 2 Inc. makes first interest payment
Feb. 2014–Present	MaRS Phase 2 Inc. interest payments due to IO covered by Ministry's Debt Service Guarantee.
Feb. 3, 2014	Minister of Infrastructure sends letter to IO directing it to provide financial and strategic advice to Ministry regarding MaRS Phase 2 Inc.
Apr. 2014	IO receives preliminary Treasury Board approval to pursue its recommended option of buying out private-sector developer and acquiring the MaRS Phase 2 building.
May 2014	Final approval of negotiated settlement with developer and acquisition of building delayed as a result of provincial election call.
Sept. 2014	Agreement to buy out the developer's residual interest announced.

permits were in place and the project had already been built up to street level. The main construction risks that IO identified at this time were that any further delays could lead to deterioration of the building's foundation and put at risk the significant amount of funds that had already been invested. As well, further delays might cause the two committed anchor tenants to seek space elsewhere.

When it submitted its formal financing proposal to the Loans Program, MaRS did not fit into any of the 10 eligible borrowing sectors identified in Ontario Regulation 220/08 to the *Ontario Infrastructure Corporation Act, 2006*. In February 2010, the Ministry of Energy and Infrastructure (since split into two separate ministries) submitted a request to Cabinet's Legislation and Regulations Committee to name MaRS (and its subsidiaries) an eligible borrower under the Loans Program. The reasons for the request included the following: complementing the government's previous grant support of over $70 million for the MaRS project; supporting the government's commitment to Ontario's research and innovation agenda; supporting the government's priority of job creation in the construction and knowledge-based sectors; and addressing a shortage of laboratory space in Toronto at the time (which included addressing the research laboratory-space needs of Public Health Ontario and OICR). Later in February 2010, the requested regulatory change was made, and MaRS and its subsidiaries became eligible for financing from IO for capital expenditures relating to infrastructure projects and acquisitions.

With MaRS now officially eligible to borrow, Loans Program staff performed a formal underwriting analysis for a proposed $235-million loan to MaRS and presented it to IO's Credit Review Committee (CRC) in May 2010. The analysis highlighted various risks relating to the loan, which were as follows:

- **Low budgets for "tenant inducements"**—The space for lease was newly constructed and essentially bare down to the concrete. Tenants would have to pay to custom-finish and equip the space they were to lease (for example erecting walls, installing floor coverings, and connecting to the building's central HVAC and water systems). There were limited funds available to offer tenants at least partial finishing as an inducement to sign a lease, and with the proposed rent of $29 per square foot and additional operating costs of $31 per square foot, both of which are still much higher than the market average, finding tenants willing to spend that kind of money might be difficult.
- **Competition from other research facilities**—Because the project had already been delayed, interested tenants could already be looking or have found space available elsewhere.
- **Limited alternative uses for the building because of lease restrictions**—The University Health Network's land-lease to MaRS states that the land may only be used for medical or other scientific research purposes.
- **An overly-optimistic projected vacancy rate**—The vacancy rate for the Phase 2 building was projected to be 3.1% (based on the vacancy rate at Phase 1) versus the average vacancy rate for commercial space in Toronto at the time, which was 6.1%.

To deal with the risks identified, the analysis suggested a number of restrictions and covenants for the proposed loan, including the 80% pre-leasing condition along with a debt-service and cost-overrun guarantee from MaRS that would have to be met before any loan money could be advanced.

IO's board Credit and Risk Management Committee approved a $235-million loan to MaRS later on in May 2010. The file remained relatively idle for more than a year while MaRS renegotiated its sub-lease with the private-sector developer, formed a subsidiary to manage the completion of construction of MaRS Phase 2 and attempted to meet the loan agreement's 80% lease-up condition.

In July 2011, MaRS Phase 2 Inc. was formed as a subsidiary of MaRS Discovery District. In August 2011, a restructured sub-lease agreement was signed and the newly formed subsidiary took over constructing and leasing-up the MaRS Phase 2 building from the private-sector developer. The restructured sub-lease agreement facilitated the recommencement of construction and shifted the risks associated with Phase 2 (for example, construction, tenancy and loan-default risks) from the private-sector developer to MaRS Phase 2 Inc. and the Loans Program. However, to reduce further potential delays in construction, concessions were made to the private-sector developer in the final agreement, granting the developer the right to approve or reject proposed leases at rates that were lower than the established minimum rate of $29 per square foot. The developer also retained a residual interest in the project, which gave it the potential to recover all or part of its original investment in the project after debt service payments, operating expenses and land-lease payments had been covered.

By August 2011, MaRS still had lease commitments from Public Health Ontario and OICR, but, having secured more economical space for its head office and other central operations at a different downtown Toronto location in 2008, Public Health Ontario had reduced the amount of space it would need in Phase 2 to cover just the relocation of its central public health laboratories. In addition to these lease commitments, MaRS Discovery District signed a lease with MaRS Phase 2 Inc. for approximately 15% of the available space, intending to later divide it up and sub-lease it to other tenants (i.e., MaRS Discovery District would absorb the tenancy risk related to this 15% of the rental space). However, these lease commitments only added up to 43% of the building's available space—still nowhere near the Loans Program's 80% pre-lease requirement.

To avoid delaying the project any longer and to support the government's research and innovation priority, the proposed debt-service and cost-overrun guarantees from MaRS were not included in the final financing agreement (MaRS did not have the means to service these guarantees from its other operations). Instead, the Ministry of Research and Innovation (Ministry) signed a 15-year debt service guarantee for up to $7.1 million/year with MaRS Phase 2 Inc. to cover the financial risk posed by the lack of committed tenants. The purpose of the debt service guarantee was to allow funding to begin to flow from the Loans Program to MaRS Phase 2 Inc. so that construction could recommence, and suitable tenants were to be sought out during the construction phase. In its submission for Treasury Board approval for the debt service guarantee, the Ministry noted that the amount of the guarantee could be reduced if additional government funding was allocated to other public entities for moving into the relatively expensive space in Phase 2.

Although the Ministry's debt service guarantee minimized the amount of default risk the construction loan posed to IO and allowed construction of Phase 2 to recommence, the original purpose of the proposed 80% pre-leasing condition—that is, reducing uncertainty and risks around MaRS Phase 2 Inc.'s ability to attract high-credit-quality tenants to sign long-term leases at the proposed rate of $29 per square foot—was not realized. Instead, the debt service guarantee merely transferred the loan default risk from IO's Loans Program to the Ministry. Any loan default costs would be considered Research and Innovation Program expenditures instead of IO expenditures.

Construction recommenced in August 2011 and continued for the next 28 months. IO (recently re-formed as the Ontario Infrastructure and Lands Corporation) managed the project's construction risk through its standard construction-monitoring procedures, such as reviewing monthly project-monitoring reports prepared by a third-party loan monitor along with monthly project-management reports prepared by MaRS and the general contractor. In September 2013, as construction was coming to a close, with still only about 30% of the building pre-leased, MaRS Phase 2 Inc. requested additional loan financing of $40 million from IO to go towards tenant inducements (such as offering tenants various finishes to the newly constructed but still bare space) and to assist in finding tenants. IO declined this request.

In December 2013, the construction of the Phase 2 tower was completed within budget at just over $212 million at the time (subsequent work increased this amount to $224 million), and an occupancy permit was issued. At this point, the majority of the building should have been leased out, with tenants fitting out their spaces and preparing to move in, but still only just over 30% of the space available had been leased, to the two anchor tenants. Leases for both anchor tenants were at the higher-than-market-average prices that they had previously committed to. Since both organizations receive the majority of their funding from the government of Ontario, the additional rent over market prices would in effect be a subsidy in support of the government's medical research agenda and the MaRS vision. In the case of Public Health Ontario, the net present value of this subsidy is at least $7 million over the 25-year lease, based on an appraisal done in 2010 that indicated a $27-per-square-foot net market rental rate for specialized laboratory space in downtown Toronto.

No other tenants were coming forward to sign leases at these rates. At the same time, MaRS Discovery District did not have the required funds available to service the lease commitment it had made for 15% of the available space, and that space remained unleased as well.

The concessions granted to the private-sector developer to get construction restarted in 2011 now proved to be a roadblock to leasing available space when construction was completed. The developer has no financial incentive to approve any leases at rates lower than the $29 established minimum. Had this concession not been made, MaRS Phase 2 Inc. would have been able to lower its asking lease rate to match the going rate, fill the vacant space and thereby cover its debt service costs.

In mid-December 2013, IO sent a letter to MaRS Phase 2 Inc. outlining details of the first interest-only payment due in January 2014. MaRS Phase 2 Inc. again responded with a request to modify the loan terms and increase the amount of the loan to fund tenant inducements, which IO again turned down.

On December 31, 2013, the Ministry signed an amendment to its debt service guarantee that made it effective earlier—on January 2, 2014, instead of in September 2014. MaRS Phase 2 Inc. made its interest-only payment for the month of January, but the Ministry has been covering the debt service payments per the debt service guarantee since February 2014. However, with sufficient lease commitments still not in place, the Ministry's $7.1 million annual debt service guarantee limit will not cover the entire year's debt service obligation of $8 million for 2014 or the $14.6 million annual obligation for 2015 onwards, and the loan is still at risk of default.

In early February 2014, the Minister of Infrastructure wrote to IO's board directing it to provide advice and assistance regarding MaRS Phase 2 Inc. and the debt service guarantee, and to analyze various options for the building, including its acquisition by the Ministry. The options and related analysis presented included the following:

- acquiring the building for government use, to lease to innovation-oriented clients, or to sell and use the proceeds of the sale to repay the loan; or
- providing funds to MaRS with a restructured loan to acquire the private-sector developer's interest and to offer tenant inducements.

In April 2014, IO received preliminary Treasury Board approval to pursue its recommended option, which was to negotiate a buyout of the private-sector developer's interest in the project at a discounted amount reflecting the building's high vacancy rate at the current, restricted rental rates and to have the Ministry of Infrastructure acquire the MaRS Phase 2 building at a price that makes economic sense. More specifically, the price paid, including the outstanding loan balance and the buyout of the developer's interest, should not exceed the value of the building. Final approval of the negotiated settlement with the developer and acquisition of the building were delayed as a result of an election call in Ontario in early May of 2014.

Negotiations with stakeholders were ongoing as of August 2014 when we completed our audit work, and a conditional agreement to buy out the developer's residual interest was announced on September 23, 2014.

With respect to the MaRS Phase 2 construction loan, we conclude that the government assumed significant risks in order to support MaRS's mission and vision and to preserve, through this support, a key component of the government's research and innovation agenda. By choosing to deliver support to the research and innovation agenda through IO's Loan Program, provincial monies were put at risk. This was done in several ways: through bypassing IO's established risk framework to facilitate the loan (for example, the change in legislation to make MaRS an eligible borrower under the Loans Program); through the Ministry of Research and Innovation's debt service guarantee that bypassed IO's requirement for an 80% building pre-lease commitment before funds could be advanced; and through committing two government-funded tenants to pay higher-than-market rates.

Further, there was a lack of transparency surrounding the government's support for its research and innovation agenda through this loan. No related performance measures were established for the government to determine whether its intended research and innovation outcomes were, or will be, achieved with this project. The lack of transparency regarding the policy objectives and outcomes to be achieved from this loan creates the perception that this transaction was a "bailout" of a non-government organization.

If the conditional agreement with the developer and acquisition of MaRS Phase 2 is executed, the loan-default risk and provincial guarantee will be eliminated. In addition, the above-market rents for the Public Health Ontario and OICR leases will no longer be an issue. However, as the owner of the property, the province will have new risks to manage, such as the following:

- funding any necessary tenant inducements to encourage faster lease-up of the building;
- obtaining rental rates sufficient to cover the full costs of ownership; and
- ensuring the building is a cost-effective option for addressing other government accommodation needs.

Whether the benefits realized from this transaction will ultimately outweigh the risks and costs assumed remains to be seen.

Appendix—Relocation of Public Health Ontario's Central Public Health Laboratory to MaRS Phase 2 Building

In May 2006, the Ministry of Health and Long Term Care (Ministry) sought and in June 2006 received Treasury Board approvals for an exemption to the Management Board Directive on Real Property and Accommodation, which allowed it to single-source procurement of space, and to pursue non-binding negotiations with MaRS Discovery District for accommodation space in the proposed MaRS Phase 2 building to co-locate the province's Central Public Health Laboratory (Laboratory) and the proposed Ontario Agency for Health Protection and Promotion (Public Health Ontario). The exemption request was based on a number of factors: the existing Laboratory building's age and state of deterioration (facilities were experiencing power outages, flooding, heating problems and required major repairs, including asbestos abatement); the need to reconfigure and improve ventilation to perform advanced diagnostic and molecular testing post-SARS; the proximity to academic and research centres that the downtown Toronto location offered; the ability to recruit and retain specialized staff to a modern downtown location; and the opportunity to be an anchor tenant in the proposed building before the MaRS Phase 2 building contract was awarded, which the Ministry stated would place the government in a stronger position to negotiate favourable lease and financing arrangements. Treasury Board's approval was accompanied by a requirement that the Ministry report back to it outlining the range of financing models for the MaRS relocation and providing financial analysis of other comparable options for accommodation in the downtown core.

In March 2007, the Ministry reported back to Treasury Board with further details and analysis of the options to be considered and the costs that would be incurred under the various options. The Ministry noted that moving to MaRS Phase 2 was the second-most expensive option of the various options analyzed, involving full moves, partial moves or remaining at the Laboratory site; that it would mean leaving behind a newly built Level 3 laboratory; and that the existing building and property would be left mostly vacant, leaving the special-purpose space to fill. Although about $40 million had already been spent on or committed to the existing labs for asbestos abatement and required building system upgrades to meet operational needs, the Ministry concluded that the existing Laboratory facility could not meet its program needs. (It lacked the open-concept design necessary to improve workflow, additional sealed laboratory space with advanced airflow, and a freight elevator.) The submission stressed an urgency to approve the lease negotiations, as the developer for Phase 2 was actively seeking tenants and negotiating leases while the already limited laboratory space in downtown Toronto was quickly disappearing. As well, reports analyzing the province's response to the SARS outbreak identified an urgent need to modernize the province's testing labs and improve linkages with academic researchers.

The submission called for moving almost all Laboratory operations to Phase 2 except the warehouse storage, which would remain at the existing location. This meant that, along with the agency's head office and other program-staff accommodation needs, approximately 229,000 square feet would be needed. The MaRS Phase 2 option that the Ministry outlined gave as a best estimate a rental cost of $248.9 million for a 20-year lease (assuming a rental rate starting at $20 per square foot plus another $20 per square foot in operating costs).

The legislation that created Public Health Ontario was passed in late 2007, and the agency began operating in July of 2008. The responsibility for the province's public health labs was transferred from the Ministry to Public Health Ontario in December 2008. When the construction of MaRS Phase 2 was halted in 2008, the relocation of Public

Health Ontario's head office and program staff became an issue. Given that it was going to cost more to use laboratory space as office space, as well as the uncertainty at the time as to whether Phase 2 would ever be completed, the Ministry supported Public Health Ontario's request to obtain alternative space in downtown Toronto. Around this same time, stop-gap maintenance and repairs were done at the existing Laboratory facility.

In April 2011, the Ministry, as part of a joint Treasury Board submission with the Ministry of Research and Innovation regarding a proposed debt service guarantee to facilitate the recommencement of construction on MaRS Phase 2, requested approval to increase the lease negotiation ceiling for the proposed Public Health Ontario lease for space in MaRS Phase 2 (for the Laboratory portion only) by $131 million over 25 years. The Ministry's request stated that most of the requested increased costs resulted from the additional five-year lease term obligation. However, this was only one contributing factor. The main reason for the increase is that most of the assumptions that were used in the 2007 cost projection had changed. In particular, there was an increase in the assumed gross rent from $40 per square foot ($20 base rental rate plus $20 in operating costs) to $59 per square foot ($29 base rental rate plus $30 in operating costs), rents required by MaRS Phase 2 Inc. Both of these factors were partially offset by a reduction of 69,000 square feet in the proposed total rental space required, due to a combination of accommodating agency head office and program staff elsewhere, and operational efficiencies in the new lab's design.

A plan for the former property has not yet been put forth for approval; however, the Laboratory's warehouse space is to be amalgamated with the Ministry's main supply warehouse, which will leave the entire former space vacant once the Laboratory is relocated to MaRS Phase 2 in fall/winter 2014 and the warehouse is relocated in late 2015.

According to Public Health Ontario, the benefits of moving the Laboratory to the MaRS Phase 2 downtown location are as follows: "The relocation will help achieve operational efficiencies, faster turnaround times, and allow for the full implementation of new laboratory technologies. It also means that health care providers will have timely clinical results to inform patient care."

The lease that was ultimately signed with MaRS Phase 2 was at least 50% more expensive than what had been assumed in the Ministry's original submission to obtain Treasury Board approval to negotiate with MaRS Phase 2 on a single-source basis. Given that other proposed tenants of the MaRS Phase 2 building have been unwilling to rent space at the same rates, the premium paid on this lease represents an additional cost that the government was willing to pay to strengthen its ties to the broader medical research community and to support the MaRS vision and mission.

Chapter 3

Section

3.07 Ontario Energy Board—Natural Gas Regulation

Background

The Ontario Energy Board (Board) was established in 1960 as a quasi-judicial administrative tribunal, charged with regulating the province's natural gas sector in the public interest. Over time the Board's authority expanded to also include oversight of the electricity sector. The Board operates under the authority of the *Ontario Energy Board Act, 1998*, and is responsible to ensure that natural gas market participants comply with the *Energy Consumer Protection Act, 2010* (specifically those selling to low-volume users, i.e., users who annually use less than 50,000 m³ of gas). The *Municipal Franchises Act* sets out the requirements for the allocation of municipal service territories to the regulated utilities.

The *Ontario Energy Board Act* sets out specific board objectives for natural gas services and systems, including:

- to facilitate competition in the sale of gas to users;
- to protect the interests of consumers with respect to prices and the reliability and quality of gas services;
- to facilitate rational expansion of transmission and distribution systems, and development and safe operation of gas storage; and
- to promote energy conservation and energy efficiency.

The Board's key functions in achieving these objectives cover:

- setting prices for natural gas, its delivery and storage;
- licensing of gas marketers and oversight of natural gas market participants, including both gas utilities and gas marketers, for compliance with applicable legislative and policy requirements; and
- reviewing and setting codes, rules and guidelines.

In Ontario, residential consumers have the option of purchasing their natural gas from either a gas utility or one of 12 gas marketers actively selling natural gas. There are three utilities that own the pipes and equipment that deliver the natural gas to a home or business, plus two municipal utilities that also distribute natural gas. Each utility serves different territories across the province. With the granting of a Certificate of Public Convenience and Necessity, the Board gives a particular utility an exclusive right to supply gas and to expand gas service within a municipality. This utility must then enter into a Municipal Franchise Agreement with the municipality to service its consumers and maintain its infrastructure within the municipality.

The Board regulates the rates that the three utilities charge their consumers, but not those that the gas marketers charge. The gas marketers operate as brokers, locating natural gas on the market to sell competitively. When consumers purchase gas from marketers, they enter into fixed-term contracts for periods of one to five years. If consumers do not enter into contracts with gas marketers, they get their gas supply from a utility, which is the default supplier.

For the year ended March 31, 2014, there were 3.5 million natural gas customers in Ontario. Of these, 3 million purchased their gas from one of the three utilities; this number included about 14,000 high-volume consumers as well as the majority of low-volume consumers who annually consume 50,000 m^3 or less of gas. Two of these utilities supplied more than 99% of the total natural gas consumption in Ontario. In addition, about 404,000 low-volume consumers collectively purchased gas from the 12 gas marketers actively selling gas.

The Board conducts its regulatory oversight function through a quasi-judicial process that allows for public participation. Panels of board members hold both oral and written regulatory proceedings, which must comply with established laws and board rules. Panel decisions must uphold the broad public interest, which includes the protection of consumers, the financial integrity of the utilities and other legislative goals such as safe operation of storage and energy conservation.

There are many parties to a regulatory proceeding: the applicant; the board panel as the decision-makers; board staff to support the panel or to act with delegated decision-making authority; and intervenors. The intervenors are individuals or groups who represent residential, institutional, commercial and large industrial consumers of energy, as well as environmental and policy advocacy groups. They include the Vulnerable Energy Consumers Coalition, the School Energy Coalition, the Consumers Council of Canada, the Industrial Gas Users Association and many others. Intervenors actively participate in applications, policy consultations and other proceedings before the Board, supporting the Board in its regulatory proceedings by submitting arguments or written questions, or by cross-examining witnesses.

The Board uses a three-stage process in regulating natural gas rates. One stage requires utilities to submit a cost of service application approximately every five years, which establishes the base rates to charge consumers. The utilities provide information on the estimated demand as well as estimated capital and operating costs to serve the forecast demand; the rates they can charge include a Board-approved return on their capital investments. A second stage reviews and adjusts the gas rates annually between cost of service reviews, typically using a formula that considers inflation adjusted by the utilities' productivity figures. A third stage adjusts gas rates four times a year through a quarterly rate adjustment mechanism to smooth out fluctuations in billing rates and reflect current market prices for natural gas, as well as, for example, changes in the transportation rates and changes in inventory valuations.

At the conclusion of its review processes the Board issues its decision through an Order. For the fiscal year ending March 31, 2014, the Board issued 53 decisions arising from oral and written hearings for natural gas, of which 13 decisions related to utilities' rates and the remainder related to facilities and licensing.

As of March 2014, the Board had nine members—six part-time and three full-time, appointed by the Lieutenant Governor in Council. The Board's daily operations are carried out by a staff of about 160. (See **Appendix** for the Board's organizational chart.) All regulatory costs, including intervenor costs, are recovered from the regulated and licensed entities. Board costs in the 2013/14 fiscal year to regulate the gas sector were $5.9 million of the $33.2 million total board operating costs. Gas utilities contributed $5 million, and gas marketers contributed $900,000. The 2011/12 fiscal year was the first year in which the gas marketers were required to cover a portion of the Board's costs.

Audit Objectives and Scope

The objective of our audit was to assess whether the Ontario Energy Board had effective systems and processes to protect the interests of natural gas consumers and ensure that the natural gas sector provides energy to consumers at a reasonable cost.

Our audit focused on areas that directly impact the consumer in terms of rates charged, oversight and monitoring of the compliance of utilities and gas marketers to legislative and Board requirements, and the quality of services provided to consumers by gas utilities and gas marketers.

In conducting our audit, we reviewed relevant legislation as well as administrative policies and procedures, and we interviewed staff at the Board, the Ministry of Energy, and the Ministry of Natural Resources and Forestry. Our audit focused on the Board's review of the two largest gas utilities, which supplied over 99% of the natural gas consumed in Ontario. To gain an overall understanding of and perspective on the natural gas sector, we spoke with the regulated gas utilities, and a number of gas marketers and intervenors. We also contacted and conducted research into the operations of similar regulatory agencies in other Canadian and foreign jurisdictions. In addition, we engaged the services of an independent consultant with expertise in the regulation of the natural gas sector to assist us on an advisory basis.

Prior to the commencement of the audit, we developed audit criteria. These audit criteria were reviewed and agreed to by the Board's senior management.

We conducted our fieldwork from late November 2013 through to the end of April 2014.

Summary

The Ontario Energy Board has adequate systems and processes in place to protect the interests of natural gas consumers and ensure that the natural gas sector provides energy at a reasonable cost. However, more can be done to demonstrate board effectiveness. We noted that board staff need to more fully assess the different approaches used by the utilities in recovering their costs, which affect the rates they are able to charge their customers. The Board also needs to more fully verify the accuracy and validity of the information provided by the utilities when they apply to the Board for rate changes.

Some of our key observations are as follows:

- **More thorough review of utilities' documents and processes that affect consumer rates needed:** Gas utilities are not allowed to charge consumers more than the purchase cost of gas. However, board staff seldom obtained source documents to verify the information the utilities provided in rate change applications. Board staff did not conduct sufficient reviews of the critical gas cost adjustment accounts, processes for gas purchases and transportation contracts. These costs are passed through to consumers and significantly impact consumer rates. The Board has the right to request information supporting the prudence of the utilities' gas purchases, and if it examined and compared this information between utilities, it might be able to help identify best practices for the utilities to follow. We noted that over the last 10 years only one audit of gas cost adjustment accounts and accounting processes was done, in 2011, and on only one utility. Board staff had not conducted a similar review for the other two regulated utilities since 2000. The 2011 audit identified concerns such as the utility not documenting justification for purchasing gas from suppliers who offered prices that were higher than the lowest bid prices, not having a clear policy for when competitive purchasing was required, and not complying with the commitment it made to the Board in 2000 to update documentation of its gas cost system procedures (updating was subsequently completed by December 2011).

The two utilities that supply over 99% of the gas consumed in Ontario have affiliated companies that also provide gas in other jurisdictions. Without sufficiently examining actual purchase records of these two utilities, the Board might not have taken sufficient care to protect Ontario consumers from the possibility of inappropriate charges (for example, misallocated costs relating to other provinces) being passed through to them.

- **Inadequate evaluation of recovery methods' impact on consumer gas rates:** The gas utilities apply different approaches to recover their Board-approved revenue requirement. However, board staff have not assessed the impact that these differences have on consumers. Utilities recover their approved service costs and rate of return on capital through fixed monthly charges and usage-based charges to customers. Board staff indicated that as long as the approved total costs are collected, it is up to the utilities to propose how much to recover through each charge. A utility's decision to give more weight to fixed rather than usage-based charges, however, could disadvantage consumers who do not have high gas usage, as they pay more for each unit of gas when more of the cost recovery is taken on fixed charges than on usage.
- **Insufficient consumer information on gas marketers' rates:** Complaints against gas marketers decreased by 81% from 2009 to 2013. (Unlike utilities, marketers charge unregulated consumer rates.) However, we noted that contract cancellation and renewal issues were still frequent consumer complaints, as consumers often discovered that they could pay lower prices with other gas providers. Providing consumers with rate information from the various gas providers would enable consumers to make more informed decisions before entering into a contract.
- **Few utility performance measures:** The Board had some customer-based performance measures in place to assess the natural gas utilities' performance, but would benefit from applying additional performance measures, such as measures relating to operational effectiveness, financial performance and public policy responsiveness.
- **Lack of reviews of board effectiveness:** The *Ontario Energy Board Act, 1998* enables the Minister of Energy to require a report be prepared every five years on the Board's effectiveness in meeting its many mandated objectives such as facilitating competition in the sale of gas and encouraging energy conservation and energy efficiency. No ministry reviews of the Board's effectiveness have been done since the *Ontario Energy Board Act 1998* came into effect.

OVERALL BOARD RESPONSE

The Board welcomes the conclusion of the Auditor General that the Board has adequate systems and processes in place to protect the interests of natural gas consumers and ensure that the natural gas sector provides energy at a reasonable cost. The Board is committed to assessing and improving its own performance and effectiveness and, in that regard, welcomes the recommendations of the Auditor General. As set forth in further detail below, the Board accepts all the recommendations.

Detailed Audit Observations

Regulating Gas Utilities

The Ontario Energy Board (Board) has developed adequate systems and processes to protect the interests of natural gas consumers and ensure that natural gas is provided to consumers at a reasonable cost. The processes that the Board has in place for setting and adjusting rates have kept consumer costs in line with market prices for the gas. Overall, Ontario consumers pay less for natural gas than those in all but one province and parts of two others. However, we are concerned that board staff have made insufficient efforts to analyze and assess the different approaches used by the utilities in assigning their rates. Board staff have also made insufficient efforts to verify the accuracy and validity of the information that utilities submit in their rate increase applications to support the Board in its decision-making.

The Board's regulatory functions are especially important in the current situation in which the two largest utilities in Ontario supply over 99% of the gas consumed in the province.

The Consumer's Monthly Gas Bill

Consumers in Ontario can get a glimpse at the complex pricing mechanism for their natural gas purchases by looking at their monthly gas bill. The customer gas bill includes monthly fixed charges and usage-based charges. The usage-based charges for a typical residential customer are as follows:

- **Gas supply charge**—a forecast of market prices for the next 12 months. Added to this charge are gas supply-related costs such as compressor fuel costs, system gas fees, working cash requirements and customer bad debt, all of which are approved by the Board. These gas supply-related costs vary by utility, but represented up to 4% of the costs in the April 2014 quarterly rate adjustment mechanism for the two large utilities.
- **Delivery cost**—which has three components:
  - Transportation charge—the cost of transporting gas to Ontario from western Canada and the United States. Transportation rates are determined by the National Energy Board in Canada and U.S. regulatory authorities in the United States, and are charged to customers.
  - Distribution charge—the cost of delivering natural gas in the utility's territory to the customer's home. This charge also includes all operating and maintenance costs and a rate of return.
  - Storage charge—the cost to the utility of storing its natural gas.
- **Cost adjustment charge**—which tracks the difference between the actual and forecast price of gas and the resulting impact on other charges, such as gas inventory in storage, costs of balancing gas supply to meet demand, and transportation costs.

Figure 1 shows the above components in a model of the monthly bills sent out by the two large utilities on April 1, 2014, to customers with an average monthly gas consumption of 255 m³. Utility A serves a small number of compact and relatively

Figure 1: The Consumer's Monthly Gas Bill, April 1, 2014[1] (Usage 255 m³)[2]

Source of data: OEB

	Adjusted Quarterly Rate ($)		
	Utility A	Utility B (Southern)	Difference
Customer charge	20.00	21.00	(1.00)
Gas supply charge	44.89	45.70	(0.81)
Delivery charge			
Distribution	29.72	9.41	20.31
Transportation	12.13	8.80	3.33
Storage	–	1.88	(1.88)
Cost adjustment	8.40	11.40	(3.00)
Total	**115.14**	**98.19**	**16.95**

1. Model monthly natural gas bill for April 1, 2014, based on the bills sent out by Ontario's two largest gas utilities.
2. For purposes of comparison, gas usage of 255 m³ is taken here as average monthly usage for a consumer household.

densely populated territories located mostly in southern and eastern Ontario. Some of the territories served by Utility B are comparable to those of Utility A, but Utility B also serves a number of widespread and relatively lightly populated territories across the south and the north of the province and divides its territories into five zones in which consumers may pay five different rates due to different costs of transportation, distribution and storage (see **Figure 2**). (For more details, see the section "Differing Regional Rates Paid in Ontario.")

Natural Gas Prices Appear Reasonable Overall

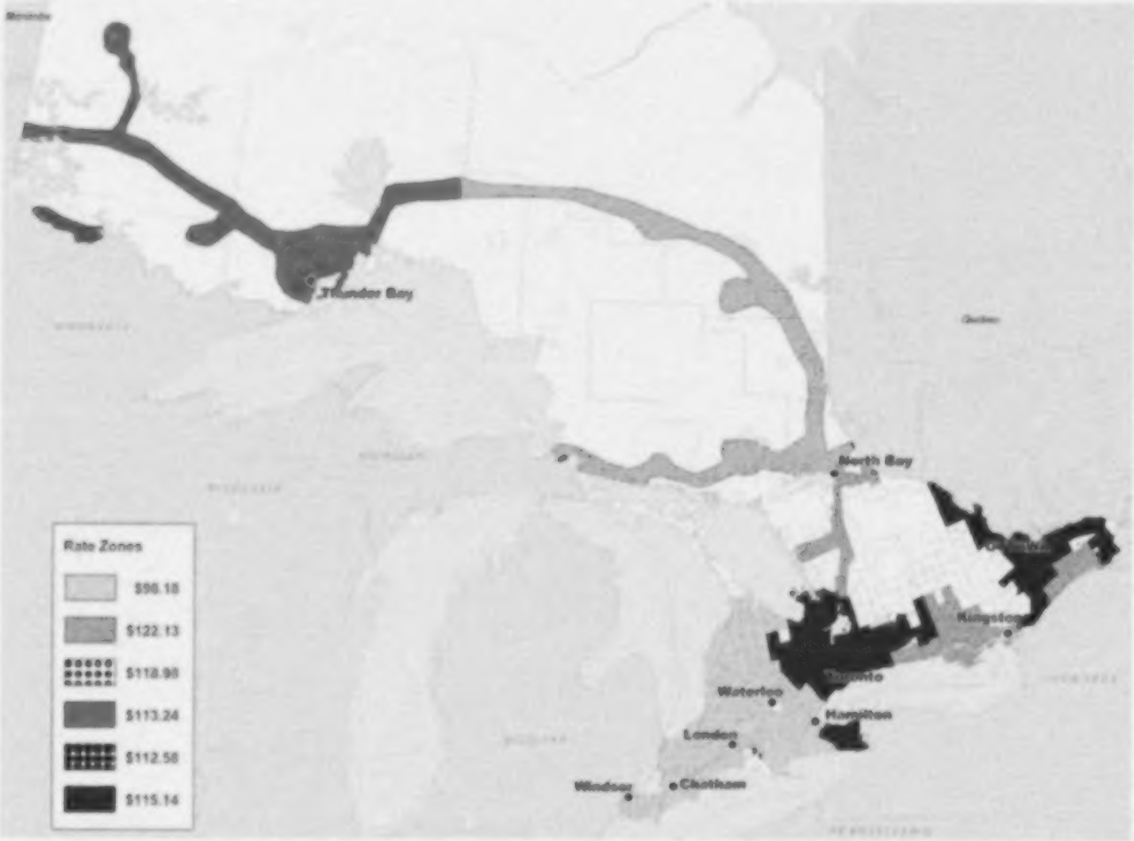
To determine if Ontario's residential customers are being charged reasonable natural gas prices, we (1) reviewed the prices paid by residential customers in other Canadian jurisdictions; (2) compared consumer gas supply prices to a standard based on the price charged on the commodity exchange for gas over time; and (3) looked at the quarterly rate adjustment process that allowed Utility A an interim price increase of 40% following the unusually cold winter of 2013/14.

Only One Province and Parts of Two Others Price Natural Gas Lower Than Ontario

Ontario's gas prices are at the low end of the range of prices available across Canada. Assuming an average monthly household gas consumption of 255 m³, in April and May 2014 only Saskatchewan (which operates its utility as a Crown corporation) and parts of Alberta and British Columbia had

Figure 2: Utility Gas Distribution Areas and Gas Rates for a Residential Customer with a Monthly Consumption of 255m³ of Gas, April 2014

Source of data: OEB



prices that were lower than the prices charged to 99% of Ontario's gas consumers by Ontario's two largest utilities.

Ontario Consumer Gas Prices Are in Line with the Commodity Exchange Price

In Ontario, regulated utilities are not allowed to make a profit on the transportation of natural gas and its sale as a commodity to consumers. The gas utilities are to charge customers their actual purchase cost of gas and their actual cost of transporting it to Ontario. To verify that the cost consumers pay for the gas itself (known as the gas commodity rate) fairly reflects the cost the utilities paid in purchasing the gas, we compared the gas rates of the two largest utilities, which supplied over 99% of Ontario's natural gas consumption, to the average price of the gas available to the utilities for purchase in Alberta. The Alberta price (known as the Empress price) is the basis for establishing the cost of gas to the utilities that the Board approves as the reference price.

For the utilities' purchase prices we used the calculated 21-day average of the forecast of the upcoming 12 months' prices to arrive at the Board-approved reference prices for the years from January 2007 to April 2014. We noted that the rates the utilities charged consumers for the gas were closely aligned to the Empress prices over this time period. Based on this review, we are satisfied overall that, for the gas they supplied, the two large utilities charged consumers prices that reflected natural gas market prices.

Assessment Process Followed Properly in April 2014 Quarterly Gas Rate Adjustment

The rates that the utilities may charge their customers for the gas supply itself are adjusted each quarter and come into effect on January 1, April 1, July 1 and October 1 of each year. The underlying principles of these adjustments are to more accurately reflect market prices on an ongoing basis; provide enhanced price transparency; smooth out large adjustments on customers' bills; and provide fairness and equity among customer groups, such as residential, small commercial and high-usage customers. The quarterly rate adjustment review and approval process is expected to take approximately two weeks. Board staff are delegated the authority to assess and approve the utilities' quarterly rate adjustment applications. In complex cases, such as those involving policy or unusually high adjustments, the applications are adjudicated before the board panel.

Record cold temperatures in the winter of 2013/14 led to Ontario's two largest utilities requesting exceptionally high rate increases in the April 2014 quarterly rate adjustment. Following the decision of a board adjudication panel, the Board granted Utility A an interim 40% increase and Utility B a 28% increase. These price increases provoked a strong reaction from consumers and the media. Our audit looked at how the Board reached its decisions, with a focus on the question of whether the two rate increases were supported by the information the Board was given.

Based on our review, one of the main reasons that Utility A's April prices increased more than Utility B's was that its gas plan was very different from Utility B's gas plan. Both plans were approved by the Board.

Gas plans define the gas supply requirements and transportation capacity needed to deliver natural gas to Ontario users, and list the assets available to meet customers' demand for annual and seasonal gas delivery. The plans also make provision for gas delivery on extreme low-temperature days (peak demand days). Information necessary to estimate the demand includes data on weather, firm customer demand and forecast demand growth.

We reviewed the April 2014 quarterly rate adjustment applications for the two largest utilities, which were adjudicated by the board panel and reviewed by board staff. We also reviewed queries by board staff and intervenors, and the utilities' responses to those queries.

Our review of the applications noted that the utilities' requests for rate increases were due to significantly higher demand arising from the most recent winter's long period of severely cold temperatures, which significantly increased the gas supply costs. One utility pointed out that this was a one-in-35-year occurrence.

Documents furnished to the Board provided reasons for the rate increase requests. Utility A, the utility with the higher quarterly rate increase, attributed the increase to a number of supply, delivery and cost-adjustment factors. Its gas supply plan maintains maximum storage capacity for gas delivery to January 31, while Utility B, the utility with more storage, maintains maximum capacity for delivery until March 1 each year. Therefore, Utility A could not store the same quantity of gas as Utility B. Its declining stores of gas ready to deliver in February forced it to make more short-term gas purchases in the daily market when demand was higher and where prices are higher.

Based on the normal quarterly rate adjustment process, the utility filed an application seeking a rate adjustment to pass through to customers the actual higher gas costs incurred due to these exceptional weather conditions. Utility A indicated in its responses to board staff and intervenors that if its gas supply plan had been the same as Utility B's plan, it could have saved about $150 million in lower gas prices it would have paid by making its additional purchases on a more advantageous schedule.

In addition, if Utility A could have maintained its stores of gas ready to deliver until the end of February and eliminated peak-demand services, it could potentially have saved an additional $71 million on top of the $150 million cost of the gas itself.

We concluded that the Board's processes were followed properly and resulted in decisions that can be supported. We also noted that the Board issued a Decision and Order on May 22, 2014, to mitigate the significant impact of the rate increase on consumers by approving a 27-month rate smoothing period rather than the normal 12-month period. This extended period lessened the impact of the price increase on the utility's customers.

Although the April 2014 rate increase approved for Utility A was higher than the one approved for Utility B, our review of the quarterly effective prices for the two large utilities from 2006 to 2014 showed that no one utility had prices that were consistently lower or higher than the other utility's prices over this time period.

Following our audit fieldwork, in June 2014 the Board began a two-phase review of the quarterly rate adjustment mechanism for natural gas distributors to address any similar situations that could arise in future. The first phase will include a review of the process, including the filing of the application and supporting evidence, triggers for a substantive review, and timelines for review and comments. It will also include a review of the Board's policy on smoothing rate increases on the customer's bill and a review of its protocols for communicating with consumers.

Evaluation of Differences in Consumer Gas Rates

Differing Regional Rates Paid in Ontario

Natural gas rates charged to residential customers by the two large utilities differ across the province. Utility A, serving a smaller number of more densely populated residential regions, charges all of its residential customers a single provincial rate. In contrast, Utility B, which serves several widespread and lightly populated territories in addition to some densely populated residential regions, charges five different gas rates depending on the location of the customer. This results in a situation where one consumer located in close proximity to another could pay substantially more, as illustrated in **Figure 2**. For instance, in southern Ontario, in April 2014 a residential consumer with Utility A paid $115.14 for 255 m3 of natural gas, while a residential consumer living nearby in Utility B's southern zone and using the same amount of gas paid only $98.19.

A simple average of the monthly bills of all residential customers of both Utility A and Utility B with gas consumption of 255 m³ per month would give their customers a single province-wide monthly bill of $113.38. This would benefit customers in the two zones of Utility B that pay higher rates, and all customers of Utility A, with increased payments for customers in two other zones of Utility B. (There would be almost no change to customers in one other zone.) Calculating a provincial average for the Board to enforce would have customers in some areas of the province subsidizing the higher costs that customers in other areas currently pay for their service. The utilities' costs of supplying natural gas currently differ across the province due to different costs of transportation, distribution (building infrastructure to deliver gas to customers) and storage. These costs are affected by many factors, such as large geographical distances over which the utilities transport gas, population densities of the different areas they serve, the utilities' storage capacities, the kinds of assets they use (cast iron versus steel or plastic mains) and other factors.

Cost of Service Reviews Do Not Take into Account All Information and Practices That Could Affect Consumer Rates

As noted earlier, we found that the April 2014 quarterly gas supply rate adjustments applied to the consumer bill were reasonable. The other components of the consumer gas bill include fixed monthly charges, transportation, delivery and storage charges. These components are determined and adjusted through the cost of service application process review, and usually adjusted in incentive regulation or quarterly rate adjustment applications. Approximately every five years, in accordance with the Board's 2005 Minimum Filing Requirements, regulated utilities submit to the Board a full cost of service application that includes details of their operating revenues for the future year, current year and previous year; estimated demand for their gas; estimated capital costs and operating costs to serve the forecast demand; and estimated rate of return that they request the Board to approve on their capital investments. The Board uses this information to determine the amount of money each utility is permitted to earn (known as its revenue requirement), which the utilities use to set their fixed monthly charges and usage-based charges.

Board staff rely on policy and previous adjudication decisions and board procedural manuals in their review of these cost of service applications. We reviewed the most recent cost of service applications effective for the 2013 rates for the two largest utilities. Board staff and intervenors requested many additional supporting schedules or clarifications of information provided in the applications to aid in their review, although board staff did not regularly evaluate and compare differences between the two utilities in information and practices that could have an impact on the consumer gas bill. These include the different cost structures used by the two utilities, their different rate designs (the weighting of fixed versus usage charges) and the different costs each utility pays for its gas supply.

Rate designs could disadvantage some customers

In reviewing cost of service applications, board staff have not compared the information submitted by the two utilities to assess the differences and the potential impact on consumer rates, or to help identify best practices. In particular:

- **Differences in delivery charges:** As noted in **Figure 1**, the greatest variation between the total monthly charge to residential customers of Utility A and those of Utility B (zone 1) was in the delivery charge, a $20.31 (216%) difference. We noted that this difference includes a gas cost adjustment of $10.23 for Utility A from a prior period. Nevertheless, board staff did not conduct or request a comparison of the differences in the two utilities' delivery capabilities and the cost impact on customers.

  According to board staff, delivery-related charges differ due to the underlying different distribution-related costs to serve customers of Utility A and Utility B, including factors such as age and composition of assets, population density in customer-service areas, and company operating costs. However, board staff were unable to provide a breakdown of these differences.

- **Lack of clarity in rate designs:** The delivery charge is also affected by the utility's rate design. The rate design determines the proportion of the utility bill recovered through fixed monthly charges and the proportion recovered through usage-based charges. Utilities recover their fixed costs through fixed charges and the remainder of their permitted earnings through usage-based charges. To be able to determine the reasonableness of the amounts recovered by utilities from fixed charges, there needs to be a clear breakdown of costs and charges that links the fixed costs to the charges. We found that there was no clear linkage of the utilities' fixed costs to support the amounts collected through fixed charges.
- **Different weighting of fixed and usage-based charges:** The two utilities' cost recovery practices showed significant differences in the percentages they took in fixed charges and in usage-based charges billed to residential consumers. In the most recent (2013) cost of service application, for its residential consumer billing, Utility B forecast recovery of $266.8 million of $282.1 million, or 95%, in fixed consumer-related costs such as meter reading, administration of accounts and infrastructure (77% recovered in its 2007 cost of service application); Utility A forecast recovery of $447.97 million of $363.13 million, or 123%, of such costs (71% recovered in 2007).

  Such differences in the weighting of cost recovery between fixed and usage-based charges could present inequities that disadvantage consumers who do not have high usage of gas, as they pay more for each unit of gas when more of the cost recovery is taken on fixed charges than on usage charges.

Settlement proposals are not reviewed from a public interest perspective

According to board staff, in their respective 2008 rate applications, the percentages of the utilities' costs that the utilities are permitted to recover through customer billing were determined in a settlement process involving the utilities and the intervenors. In a rate application, the Board normally requests the participating parties to reach agreement through the settlement process, if possible. This avoids a full-scale hearing before the Board; only those issues on which agreement has not been reached are heard through board proceedings. The goal of this less formal settlement process is to achieve regulatory efficiency. At the end of the process, the intervenors and the utility file with the Board a proposal describing their agreement to the issues.

Board staff indicated that they had not evaluated the different costing methodologies used in the settlements, as their role in the settlement process is limited to ensuring compliance with board requirements. Thus, board staff did not participate in assessing the appropriateness of the settled recovery percentages referred to earlier. However, during the settlement conference, board staff are required to present options for the consideration of the parties and to offer advice on the strengths and weaknesses of the parties' proposals. Our review showed there was no board staff submission commenting on whether the settlement proposal represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale are adequate to support the settlement proposal.

RECOMMENDATION 1

To ensure that its regulatory decisions protect the interests of natural gas consumers and the public interest, and that the natural gas sector

provides gas to consumers at a reasonable cost, the Ontario Energy Board should:

- **compare the different cost recovery approaches applied by the regulated utilities;**
- **compare information submitted by the utilities and identify best practices in purchase, transport and storage of gas that could have an impact on consumer rates;**
- **implement any needed changes arising from its review of the quarterly gas rate adjustment process that it began in June 2014; and**
- **assess whether the settlement proposal represents an acceptable outcome from a public-interest perspective, and whether the accompanying explanation and rationale are adequate to support the settlement proposal.**

BOARD RESPONSE

The Board accepts this recommendation.

The Board notes that the first phase of the review of the quarterly rate adjustment mechanism (QRAM) was completed in August 2014. Going forward, the Board will require each gas distributor to use best efforts to ensure that customers are made aware in a timely manner if the anticipated increase in the gas supply component of bills for residential customers exceeds 25%.

The second phase of the Board's review of QRAM will follow the Natural Gas Market Review forum scheduled for December 2014. That second phase will examine the gas supply plans used by the gas distributors, including the different ways in which commodity price and risk are addressed in those plans.

The Board also notes it amended its Practice Direction on Settlement Conferences regarding the role of board staff in respect of settlement proposals in April 2014. In accordance with these amendments, board staff now make submissions to the presiding board panels on settlement proposals addressing the very factors identified by the OAGO. The Board acknowledges that these guidelines were not in place at the time of the 2013 proceedings noted by the OAGO.

Additional Review Needed for Accuracy and Validity of Information Submitted to the Board

Our review of the quarterly gas rate adjustment application process noted that utilities provided different levels of support for their pricing requests and applied different approaches in arriving at information required to be submitted. Board staff do not compare the approaches used by the utilities. We found as well that board staff seldom obtained source documents to assess the information provided in the various applications for accuracy and validity.

For example, when determining their gas supply rates for the forecast 12-month period, each utility applied a different approach to arrive at the reference price of the gas for board approval. This reference price is the Alberta price, or Empress price, discussed earlier in the section on natural gas pricing, which is derived from the New York Mercantile Exchange price. One utility applied a daily exchange rate to arrive at the price in Canadian dollars, while the other utility applied a monthly average exchange rate. These two approaches resulted in one utility establishing a higher Empress base price than the other. For 2013/14, this higher base price had a $2.8 million impact on the utility's customers, based on their level of gas consumption. According to board staff, this amount would ultimately be adjusted to the actual costs of gas purchased. However, board staff do not review the details of the utilities' gas cost adjustment accounts, which track the differences between forecast and actual purchase prices, to ensure that the appropriate adjustments are being made.

In addition, under the Board's Reporting and Record Keeping Requirements for Gas Utilities Policy, utilities are required to maintain records, which the Board may request to examine, of information supporting the prudence of their gas purchases. These include, for example, a summary of contracts for gas supply and for gas transportation to Ontario, information on available gas storage, and details to support the monthly gas price adjustment associated with specific purchases occurring in that month. Entries to the cost adjustment accounts are required to include clear and detailed explanations. Management reports must also be maintained, to support purchasing decisions.

We found that board staff did not obtain any of the above source documents to assess the accuracy and validity of the information provided in the applications. Board staff indicated the Board's audit staff monitored compliance with these requirements through separate reviews. Our review of audits conducted by board staff in the past 10 years showed that only one utility was audited for compliance with these requirements, in 2011. This audit identified a number of concerns, including an out-of-period adjusting entry of $2.6 million related to 2006 that was recorded in 2008, yet the utility had not informed the Board of this out-of-period adjustment. Without sufficiently examining actual purchase records of the two utilities that supply over 99% of the gas consumed in Ontario and that also operate in other provinces, the Board might not have taken sufficient care to protect Ontario consumers from the possibility of inappropriate charges being passed through to them.

RECOMMENDATION 2

To ensure that information submitted to the Ontario Energy Board (Board) by the gas utilities that it regulates is accurate and valid and that consumers are being charged for only the actual costs incurred by utilities to purchase gas, board staff should:

- periodically select source documents from utilities for review, such as contracts, gas purchasing details and management reports, to assess the validity and reasonableness of utilities' application information; and
- periodically review price adjustment accounts and assess the appropriateness of items and entries included in these accounts.

BOARD RESPONSE

The Board accepts this recommendation.

The Board notes that the Audit & Performance Assessment unit is currently undertaking an audit of one of the major gas distributors with respect to that distributor's commodity accounts and related accounting policies, procedures and processes. The audit will include an examination of the distributor's gas price forecasting methodology, its gas purchase and tendering practices and its compliance with board-approved policies, procedures and accounting treatment.

That audit will be completed by the end of the Board's fiscal year. The Board anticipates that comparable audits will be undertaken in respect of the other gas distributors in 2015.

Regulating Gas Marketers

Under the *Ontario Energy Board Act*, gas marketers operate as brokers, locating natural gas on the market to sell competitively. They are licensed to operate to increase competition in the gas sector. Marketers are not subject to board regulation in the rates they charge their customers, but they are required to be licensed to sell gas to low-volume users (annual usage of less than 50,000 m^3). Also, the Board does not regulate rates for gas utilities that distribute less than 3 million m^3 of gas a year. This would apply to about eight entities that had about 80,000 customers in total as of January 2013, including two municipally operated utilities that are licensed as gas marketers. The *Ontario Energy Board Act, 1998* specifically exempts municipally operated utilities from rate regulation by the Board if they were in operation under the *Public Utilities Act* prior to 1998; this exemption applies to these two utilities. The rates charged by these two municipal utilities are approved by their municipal governments and are not required to be reported to the Board. Similar to the regulated utilities, these municipal utilities also operate as gas distributors.

The Board's processes for issuing and renewing licences was in accordance with their policies. The process took into account factors such as the applicant's prior conduct as an indicator of future conduct with consumers; past and projected financial performance as an indicator of the ability to function economically and efficiently; and technical training and experience as indicators of the ability to understand the energy sector.

Consumers have the option of purchasing their natural gas from gas marketers through fixed-term contracts ranging from one year to five years. Although the gas marketers' rates are not regulated by the Board, starting in 2010 the Board's Reporting and Record Keeping Requirements have required gas marketers to submit information on their contract rates to the Board each quarter. This data has not been published by the Board, which collects it for its own information purposes.

To protect consumers in their decisions to purchase gas from the gas marketers, the legislation requires gas marketers to provide to the potential customer a comparison showing the amount of the customer's current gas bill versus the customer's bill based on the price offered by the marketer. This comparison is made between the gas marketer's fixed-term-contract prices for one to five years and the utility's price, which is the price of the gas supplied for a specific quarter and is adjusted each quarter. Our review of gas contract rates charged by various gas marketers for the quarter ended March 31, 2014, showed that the rates varied significantly among marketers, as seen in **Figure 3**.

Figure 3: Variation in Marketers' Gas Rates, Quarter Ended March 31, 2014

Source of data: OEB

	Cost per m³ of Natural Gas (¢)		
Contract Terms	Low	High	% Difference
One-year	12.0	46.8	290
Two-year	14.4	23.1	60
Three-year	14.9	39.8	167

Improvement Needed in Addressing Consumer Complaints

The Board's regulatory responsibilities include responding to inquiries and addressing complaints received from natural gas customers regarding the activities of the regulated gas utilities and licensed gas marketers. Customers can contact the Board via telephone, through the Board's website or in person. Before registering a complaint with board staff, customers are requested to contact the appropriate gas utility or gas marketer. If a customer has contacted the gas utility or gas marketer and is not satisfied with the response or resolution, the complaint is then logged by board staff for follow-up with the gas utility or marketer. We found that it took the Board, on average, about 31 days for utility complaints and 33 days for gas marketer complaints to be addressed. This includes the time from date of receipt of the complaint to board staff review of responses provided by the utilities or gas marketers.

The number of complaints registered against gas marketers declined from 2,774 in 2009 to 539 in 2013, a decrease of 81%. We noted that this decrease in gas marketer complaints followed increased efforts by board staff to ensure gas marketers' compliance with the new requirements of the *Energy Consumer Protection Act* and to educate consumers and communicate consumer protection information through the Board's website. These efforts were effective in reducing the number of complaints. The decrease in complaints also coincided with a fall in the number of consumers buying gas from the marketers.

However, we noted that complaints about contract cancellation and renewal issues were still frequently raised, as consumers often found after signing contracts with marketers that they could pay lower prices with the local utility or with other gas marketers. Providing consumers with rate information from the various natural gas market participants would enable them to make more informed decisions before entering into a contract. Regulatory bodies in Pennsylvania and Ohio provide data on their websites on the rates charged by their gas marketers along with other consumer protection information.

Since 2010, gas marketers in Ontario have been required to submit to the Board consumer complaints that they receive and address each quarter. We found that board staff did not review this complaint data for trends and patterns or compare it against data on complaints received directly by the Board, in order to identify anomalies for further investigation. We compared the two sources of data and found significant anomalies in a number of complaints received. For example, our review of the complaints received directly by gas marketers for the years 2010 to 2013 found that one gas marketer with about 160,000 customers reported receiving 1,700 complaints, while another gas marketer with about 130,000 customers reported 11,000 complaints—a difference of approximately 9,000 complaints between two similar-sized gas marketers. Our review of complaints received directly by board staff for these same two marketers showed that the Board received a similar number of complaints for each. When we brought this to their attention, board staff indicated that the difference was due to the lack of a board definition for complaints to be reported. This resulted in each gas marketer using a different definition of what constitutes a complaint to be reported to the Board.

RECOMMENDATION 3

To provide consumers with the information they need to make informed decisions in selecting a gas marketer and to protect consumers' interests, and to be in a position to assess consumer complaints regarding gas marketers, the Ontario Energy Board (Board) should:

- consider including on its public website information on the gas rates offered by the various gas marketers for consumers to consult before entering into a contract; and
- define the types of issues to be classified as consumer complaints for reporting purposes, so that the Board can compare the data on complaints it receives directly from consumers to the data on complaints that gas marketers report to the Board, in order to identify any anomalies and other areas of concern for further follow-up.

BOARD RESPONSE

The Board accepts this recommendation.

The Board has initiated a comprehensive review of the effectiveness of the consumer protection measures in the *Energy Consumer Protection Act*. In connection with that review, the Board will consider the appropriateness and practicality of including on its website information regarding the prices offered by gas marketers.

The Board is also taking steps to clarify the types of issues that should be classified as "consumer complaints" for reporting purposes.

Monitoring Compliance and Enforcement

Board staff have the authority to conduct compliance and inspection audits and reviews of gas marketers and gas utilities to assess their compliance with applicable legislative and regulatory requirements. Staff also have the authority to review compliance with board-established requirements as set out in various documents such as the Gas Distribution Access Rules (which include service quality requirements for utilities), the Code of Conduct for Gas Marketers, and Reporting and Record Keeping Requirements for both. The Board's licensing requirements for gas marketers specifically list compliance requirements.

Two units within the board staff are responsible for conducting these reviews and audits: the Consumer Protection Unit and the Audit and Performance Assessment Unit. Usually, on a weekly basis these two units present identified issues of non-compliance to a Compliance Review Committee to determine the action to be taken. This could include conducting further work through an audit, inspection or investigation; monitoring future activity; providing guidance to a single licensee or the industry; recommending enforcement action (including seeking an assurance of voluntary compliance or issuing a notice of intention to make an order); or suspension of a licensed activity. The Board also has the option to levy administrative penalties against gas marketers and gas utilities. These administrative penalties vary according to the severity of the impact of non-compliance on consumers and the severity of the deviation from legislative and regulatory requirements. The maximum administrative penalty the Board may impose is $20,000 for each day or part of a day on which the contravention occurred or continues.

Inspection Efforts Focused Primarily on Gas Marketers

We found that the Board's Consumer Protection Unit, composed of four staff members and a manager, focused its compliance efforts on gas marketers, although in 2012 the marketers sold gas to less than 15% of the gas consumers in Ontario. The gas marketers became the Board's primary focus as a result of numerous consumer complaints prior to the *Energy Consumer Protection Act* in 2011. This Act established consumer protection requirements directed to gas marketers who sold to low-volume consumers (those who consume less than 50,000 m3 annually). **Figure 4** shows the number of inspections conducted since 2009 and the administrative penalties levied.

The Consumer Protection Unit implemented its first risk-based compliance plan in 2013/14 to proactively identify high-risk areas of focus for compliance activities for both the electricity sector and natural gas sector. Before this time, most inspections were conducted in reaction to consumer complaints received. The exception to this occurred in 2011/12, with the introduction of the *Energy Consumer Protection Act*, effective January 1, 2011. Under the *Ontario Energy Board Act*, gas marketers are required to submit a certificate of compliance with the Act and with applicable regulations and board rules, codes and orders. In 2011/12, board staff contracted with an external consultant to conduct inspections of all gas marketers that had submitted certificates in that year, to determine whether the marketers were in fact complying with all requirements.

The external consultant's work identified issues of non-compliance for all marketers that were inspected. The common types of non-compliance identified were related to identification badge content requirements, completion of price comparisons and disclosure statements, contract content requirements for customer cancellations, gas marketers' handling of complaints, and content of training materials for gas marketer staff. In the majority of cases, the marketers entered into assurances of voluntary compliance and had administrative penalties levied. Subsequent to these reviews the consumer protection unit continued to review these marketers' compliance with the requirements set out in the self-declared certificates of compliance.

Insufficient Audits of Gas Utilities

The Audit and Performance Assessment Unit, composed of four staff and one manager, conducts financial and operational audits of gas utilities. Its activities include assessing whether accounting policies and practices are appropriate to generate reliable data; reviewing specific financial accounts that impact regulatory decision-making; and auditing for compliance to board requirements, such as service quality requirements intended to protect consumer interests. The unit also conducts follow-up audits of previously identified issues.

Two municipal utilities are licensed as gas marketers. Since these municipal utilities are system gas distributors and do not market or enter into contracts with their customers, the Board approved their licences with certain exemptions from both the Code of Conduct for Gas Marketers and its Reporting and Record Keeping Requirements.

Figure 4: Consumer Protection Unit Inspections and Administrative Penalties Levied, 2008/09 to Date

Source of data: OEB

Fiscal Year Ended	# of Inspections	Administrative Penalties Levied ($)	# of Entities Fined Administrative Penalties
2008/09	1	0	0
2009/10	2	75,000	2
2010/11	4	234,000	1
2011/12	20	967,500	12
2012/13	2	21,000	2
2013/14	20	120,000	1
2014/15 as of May 2014	2	830,000	2
Total	**51**	**2,247,500**	**20**

However, these municipal utilities are still required to meet certain licensing requirements related to these rules. Board staff indicated that they have not conducted any inspection or audit work at either of these municipal utilities to assess their compliance with specific licensing requirements.

For the two rate-regulated gas utilities that supplied more than 99% of the natural gas consumed in Ontario, the Audit and Performance Assessment Unit conducted four gas utility audits and three follow-up audits between 2009/10 and 2012/13. These audits addressed compliance with service quality requirements, one utility's allocation of costs between its regulated and unregulated activities, and one utility's gas cost adjustment accounts, also known as purchase gas variance accounts (PGVAs). These accounts track differences between the forecast and actual purchase costs of gas. The PGVAs are critical for adjusting gas purchase costs and contracts for transportation of gas to Ontario, all of which are pass-through costs that significantly impact consumer rates. Over the last 10 years only the one audit mentioned above was done, in 2011, of PGVAs and processes in accounting for gas costs, and on only one utility. Board staff had not conducted a similar review for the other two regulated utilities since 2000.

The PGVA audit conducted in 2011 identified a number of concerns that are relevant to the utility's consumer rates. They included the following: the utility not disclosing to the Board an out-of-period adjusting entry of $2.6 million (as mentioned in the section "Additional Review Needed for Accuracy and Validity of Information Submitted to the Board"), not accruing unbilled gas inventory on a quarterly basis to be consistent with the principles of the quarterly adjustment process, not documenting justification for purchasing gas from suppliers who offered gas prices that were higher than the lowest bid prices, not having a clear policy for competitive purchasing, and not complying with the commitment made to the Board in 2000 to update documentation of the utility's gas cost system procedures (updating commenced nine years later, in 2009, and was under way during the 2011 audit; it was completed by December 2011).

RECOMMENDATION 4

To more effectively oversee the regulated gas utilities in the interest of consumers, and to ensure the validity and accuracy of information they are required to provide to the Ontario Energy Board (Board) to protect the interests of consumers, the Board should conduct more frequent inspections and audits of the regulated utilities that supply more than 99% of the gas consumed in Ontario, especially in areas that significantly impact consumer rates such as price adjustment accounts, purchasing processes and capital expenditures.

BOARD RESPONSE

The Board accepts this recommendation.

As noted above in the Management Response to Recommendation 2, the Board is currently engaged in an audit of one of the gas distributors and anticipates that further audits will proceed during 2015.

The Board also notes that in 2013, it developed and adopted a risk-based approach to the assessment of compliance by gas and electricity distributors. That risk-based approach assists the Board in focusing its compliance-related resources in an effective manner. That approach is being implemented over the course of the 2014 fiscal year.

Improvement Needed in Assessing Performance of Gas Utilities

A 2010 United Kingdom report on a regulatory agency similar to the Board indicated that the measure of the effectiveness of an organization's performance also relies on an assessment of the performance of its regulated entities. It suggests that it is "common, and good practice, for regulators to use a basket of indicators to judge companies' performance, and to analyze trends in data not just year-on-year performance. This is because annual performance measures, particularly in infrastructure industries, can be strongly influenced by exceptional external events, and can mask underlying problems which may only become apparent in the longer term." We noted that the Board had only a few customer-focused performance measures regarding service quality requirements in place to assess the gas utilities' performance. It had no performance measures for operational effectiveness, financial performance or public-policy responsiveness, as exist for the electricity sector. In its oversight of Ontario's electricity sector, board staff are in the process of establishing scorecards to enable the Board to assess the electricity market participants' performance annually. Board staff indicated that they will make a determination in the future as to whether these scorecards will be developed for gas utilities.

RECOMMENDATION 5

To more effectively oversee the regulated gas utilities in the interest of consumers, the Ontario Energy Board should establish additional gas-utility-specific performance measures needed to assess utility performance on an ongoing basis and to identify trends over time.

BOARD RESPONSE

The Board accepts this recommendation.

The Board has recently adopted a range of annual reporting requirements for each of the two major gas distributors. These reporting requirements address operations, financial results, service quality performance, capital additions, and gas supply planning. Beginning in 2015, each of the two major gas distributors will review its performance annually with stakeholders and the Board.

The Board will work with the gas distributors to ensure that the annual reporting in respect of existing performance measures is published in a format that is open and accessible to all interested parties and consumers.

Monitoring the Board's Performance

The Ministry of Energy (Ministry) has oversight of the Board and applies a number of tools to enable it to monitor the Board's operations. The Board is required, among other things, to comply with the Agency Establishment and Accountability Directive, as the Board is a Crown agency; comply with the terms of the memorandum of understanding setting out the responsibilities between the Minister, the Chair of the Board, the Deputy Minister and the Management Committee of the Board; and submit a multi-year business plan and an annual report to the Ministry. According to the *Ontario Energy Board Act, 1998*, the Board is required to submit its annual report to the Ministry within six months after the end of its fiscal year; then, within one month after receiving the annual report, the Minister of Energy must table the report before the Legislative Assembly. Once the tabling requirements are met, the Board is required by the memorandum of understanding to publish the annual report on its public website. We found that although the Board filed its 2011/12 and 2012/13 annual reports within the required time periods, the Minister did not table the reports within one month of receipt in the Legislative Assembly as required by law, and therefore the reports were not posted on the Board's website until April 2014.

The Board's multi-year business plan sets out its strategic direction and covers a three-year period. The 2012 and 2013 business plans listed four high-level visions of the outcomes to be achieved in the energy sector over a five-year period, and the management initiatives required to meet them. The business plans state that:

- Through the Board's regulatory framework, distributors, transmitters and other regulated entities will invest and operate in a manner that increases efficiency and productivity and provides consumers with a reliable energy supply at a reasonable cost.
- The Board's own processes will be efficient and cost-effective and will be understood by and accessible to industry and consumers.

The business plans list strategic initiatives that are intended to move the Board toward its high-level outcomes. At the time of our audit, board staff indicated that, as one such initiative, they would be commencing a review of the effectiveness of the Low-Income Energy Assistance Program, which provides financial assistance to families whose incomes fall below a certain limit.

The Board's annual report shows each initiative as listed in the multi-year plan and the Board's progress in achieving each one. The results are audited annually by an external party. These results serve two purposes: they assess the Board's achievement of its objectives, and they are linked to the annual incentive payments made to both union and non-union staff. A minimum rating of 70% must be achieved for annual incentive payments to be paid each year. We noted that the management committee of the Board, based on certain criteria, can adjust targets throughout the year if certain initiatives are not progressing as expected due to, for example, changed priorities, replacement with new initiatives or the decision that the initiatives are no longer required. For the 2011/12 and 2012/13 years, the Board's completion rating was assessed at over 95%.

Our 2011 audit of electricity regulation noted that board performance measures were not based on outcomes. In its 2011–14 business plan the Board indicated that it will continue to rely on current measures of performance while it develops a performance-assessment framework that it can use to assess whether the desired outcomes of its decisions and policy initiatives have been achieved. In December 2011, the Board released a Policy Evaluation Framework to allow it to monitor and evaluate the effectiveness of its policies. The Board had not yet used the evaluation framework to evaluate the effectiveness of any of its policies.

Lack of Assessment of the Board's Performance in Meeting Its Mandated Objectives

The *Ontario Energy Board Act* establishes among the Board's objectives the protection of consumers' interests and facilitation of competition in the sale of gas to users. These objectives, however, are to be accomplished in the context of a number of structural hurdles in the province's energy sector.

The allocation of service territories to utilities for delivery of gas has a significant impact on competition. Since the 1990s and the introduction of retail competition in gas markets, gas distributors no longer have a monopoly on the supply of natural gas. Service territories have been historically allocated to utilities through board-granted Certificates of Public Convenience and Necessity, and by municipal franchise agreements that give utilities the right to operate and maintain infrastructure and distribute gas within municipalities. Some territories have had their gas provided by a particular utility since as far back as the 1850s. These agreements have been continually renewed with the same providers or with providers who amalgamated with the previously existing providers. In 2011, the most recent year for which data is available, about 400 utility-municipality agreements existed across the province. Board documentation indicates that very few municipalities change their natural gas provider once these agreements are signed, mainly because they lack an alternative pipeline infrastructure.

With the deregulation of the natural gas sector in the mid-1980s, the Board implemented a number of policies to facilitate competition. These included policies that required utilities to pass through to customers the gas costs paid with no profit component, and policies that allowed marketers to sell natural gas under fixed-term contracts ranging from one to five years, while requiring utilities to be default suppliers so they cannot enter into fixed-term contracts with customers. The purpose of these policies was to give customers flexibility to change their gas provider at any time. However, an assessment has not been done of the effectiveness of these policies in facilitating competition in the sale of gas.

In addition to these two objectives, the Board has the following mandated objectives under the *Ontario Energy Board Act, 1998* (Act):

- to facilitate rational expansion of transmission and distribution systems;
- to facilitate rational development and safe operation of gas storage;
- to promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances;
- to facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas; and
- to promote communication within the gas industry and the education of consumers.

The Act also requires the Minister of Energy to have a report prepared every five years on the Board's effectiveness in meeting its mandated objectives for tabling in the Legislative Assembly. However, no reviews of the Board's effectiveness have been conducted.

In December 2013, the Minister of Energy requested the Board to complete a review of its effectiveness relating to consumer protection measures under the *Energy Consumer Protection Act, 2010*, and to make recommendations. The Board commenced this review in February 2014.

RECOMMENDATION 6

To determine whether the Ontario Energy Board (Board) is achieving its mandated objectives, the Board should use available evaluation tools, including its Policy Evaluation Framework, and work with the Ministry of Energy to assess the effectiveness of its policies and initiatives in achieving desired outcomes and mandated objectives, including protection of consumer interests and facilitating competition in the sale of natural gas.

In addition, the Minister should table the Board's annual report within one month of receiving it, as required by law.

BOARD RESPONSE

The Board accepts this recommendation.

The Board remains committed to assessing its own performance and the effectiveness of the regulatory policies that it implements.

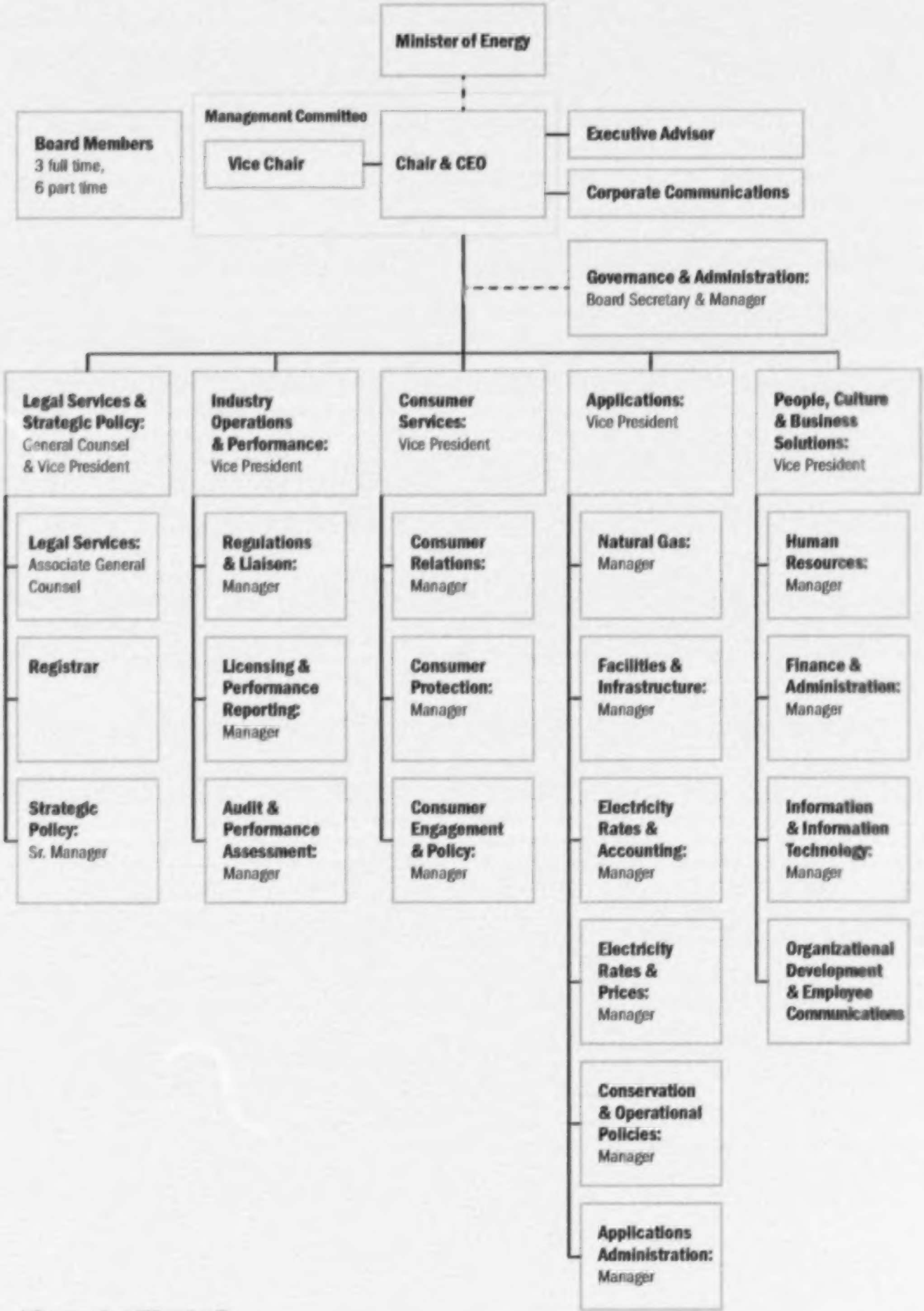
The Policy Evaluation Framework (PEF) adopted by the Board in 2011 distinguished between the evaluation of policy initiatives against short- and medium-term objectives (less than three years) and long-term objectives (greater than three years). The two key policy initiatives implemented at the Board since the adoption of the PEF are the consumer protection measures under the *Energy Consumer Protection Act* (ECPA) and the Renewed Regulatory Framework for Electricity (RRFE).

The Board is currently undertaking a review of the effectiveness of the consumer protection measures under the ECPA. The evaluation framework for the RRFE, which was first applied to electricity distributors in respect of the 2014 rate year, will be established during the 2015/16 fiscal year.

The Board will work with the Ministry with respect to any review of the Board's effectiveness which may be initiated under section 128.1 of the *Ontario Energy Board Act*.

Appendix—Ontario Energy Board Organization Chart*

Prepared by the Office of the Auditor General of Ontario


Minister of Energy
Management Committee
Board Members 3 full time, 6 part time
Vice Chair
Chair & CEO
Executive Advisor
Corporate Communications
Governance & Administration: Board Secretary & Manager
Legal Services & Strategic Policy: General Counsel & Vice President
Legal Services: Associate General Counsel
Registrar
Strategic Policy: Sr. Manager
Industry Operations & Performance: Vice President
Regulations & Liaison: Manager
Licensing & Performance Reporting: Manager
Audit & Performance Assessment: Manager
Consumer Services: Vice President
Consumer Relations: Manager
Consumer Protection: Manager
Consumer Engagement & Policy: Manager
Applications: Vice President
Natural Gas: Manager
Facilities & Infrastructure: Manager
Electricity Rates & Accounting: Manager
Electricity Rates & Prices: Manager
Conservation & Operational Policies: Manager
Applications Administration: Manager
People, Culture & Business Solutions: Vice President
Human Resources: Manager
Finance & Administration: Manager
Information & Information Technology: Manager
Organizational Development & Employee Communications

* There are about 160 total staff.

Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Cost of service application—Application submitted by gas utilities approximately every five years to establish the base rate to charge customers. Includes information on corporate assets and capital; sales and revenue forecasts; weather forecasts; estimated costs; capital structure; etc. The goal is to determine the revenue requirement (the amount the regulated utility may earn), which is then allocated to be recovered from customers.

Gas marketer—Operates as a broker, locating natural gas to sell competitively, which means that it charges unregulated consumer rates.

Gas utility—Owns the pipes and equipment that deliver natural gas to a home or business. Each utility serves different territories across the province, including municipalities. Its consumer rates are regulated by the Board.

Intervenor—Individual or group representing residential, institutional, commercial and large industrial consumers of energy, and environmental and policy advocacy groups. Intervenors participate in Board proceedings, submitting arguments or written questions, or cross-examining witnesses.

Purchase gas variance account—A utility's gas cost adjustment account that records the differences between the forecast and actual purchase cost of gas by the utility.

Quarterly rate adjustment mechanism—Quarterly adjustment of the rates the utilities may charge their customers for their gas supply. The adjusted rates come into effect each January 1, April 1, July 1 and October 1. The intention is to more accurately reflect market prices, provide price transparency, smooth out large adjustments on customers' bills, and provide fairness and equity in billing.

Rate application process—A process involving several steps from receipt of the gas utility's application for a change in the rate it charges its customers to the Board decision and issuance of the rate order.

Rate regulation—Gas utilities' rates, but not gas marketers' rates, are regulated by the Board. The *Ontario Energy Board Act*, section 36, states:

- No gas transmitter, gas distributor or storage company shall sell gas or charge for the transmission, distribution or storage of gas except in accordance with an order of the Board.

Under Regulation 161/99, section (3):

- Section 36 of the Act does not apply to the sale, transmission, distribution or storage of gas by a distributor who distributes less than 3,000,000 cubic metres of gas annually.

Regulatory hearing—A quasi-judicial process, either oral or written, where a panel of Board members makes decisions regulating the natural gas sector. Hearings are open to the public and broadcast on the Internet.

Revenue requirement—The amount a regulated utility is permitted to earn.

Chapter 3

Ministry of Health and Long-Term Care

Section

3.08 Palliative Care

Background

Description of Palliative Care

Palliative care focuses on the relief of pain and other symptoms for patients with advanced illnesses, and on maximizing the quality of their remaining life. It may also involve emotional and spiritual support as well as caregiver and bereavement support, and provides comfort-based care as opposed to curative treatment. Typical illnesses for which palliative care is provided include cancer, heart disease, respiratory disorders, HIV/AIDS, muscular dystrophy, multiple sclerosis, and kidney or liver failure. For patients who are terminally ill and within their last few weeks or months of life, palliative care is often referred to as end-of-life care.

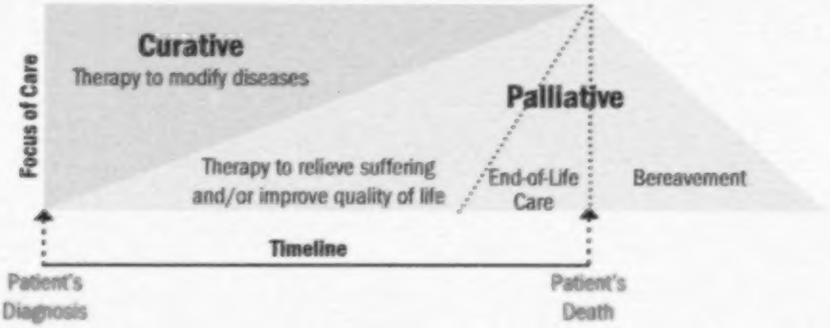
The Palliative-care Continuum

Key stages in palliative care, as shown in **Figure 1**, are as follows:

1. ***Patient is diagnosed with a chronic or life-threatening illness.*** The patient might seek measures to fight the disease, such as undergoing curative treatments to stop or alter the disease progression. The patient might also receive some treatment to manage pain and symptoms, but this is not traditionally considered to be palliative care because the main focus of the care is curative.
2. ***Disease progresses.*** If the patient's response to curative treatment is not positive, or the patient and family decide to no longer seek this treatment, the focus of care gradually shifts from curative therapies to palliative care.

Figure 1: Palliative-care Continuum

Adapted by the Office of the Auditor General of Ontario from information from the Canadian Hospice Palliative Care Association


Focus of Care
Curative
Therapy to modify diseases
Palliative
Therapy to relieve suffering and/or improve quality of life
End-of-Life Care
Bereavement
Timeline
Patient's Diagnosis
Patient's Death

3. ***Patient approaches death.*** The primary focus is on palliative end-of-life care to manage pain and symptoms, including breathlessness and nausea, as well as to address any spiritual or psychological needs of the patient or family to make the patient's remaining life as comfortable as possible.
4. ***Patient dies.*** The individual's family and loved ones can receive bereavement support, also considered a component of palliative care, to help them cope with, among other things, grief, anger, depression and guilt.

Patients most often receive palliative care in:

- their home (through the local Community Care Access Centre);
- hospitals;
- hospices, which are home-like facilities that focus on palliative care; and
- long-term-care homes.

Responsibility and Funding for Palliative Care

Many parties play a role in providing palliative care in Ontario, as shown in **Appendix 1**. In particular, the Ministry of Health and Long-Term Care (Ministry) has overall responsibility for health care in Ontario, including palliative care. It funds 14 Local Health Integration Networks (LHINs), which are responsible for planning, co-ordinating, funding and monitoring palliative-care services in their respective regions. The LHINs in turn fund 155 hospitals that may provide inpatient palliative-care services; 14 Community Care Access Centres (CCACs), one in each LHIN, that provide palliative-care services in patients' homes; and about 630 long-term-care homes that may provide palliative-care services to their residents. There are also 36 hospices (32 of which receive Ministry funding, mostly through the CCACs) that provide inpatient beds in a home-like setting and care for patients in their last few weeks to months of life. As well, there are a number of other organizations, over 60 of which receive funding from the Ministry, that provide additional support such as companionship visits and group counselling sessions for persons with an advanced illness.

In addition, the Ministry funds Cancer Care Ontario, a provincial government agency whose responsibilities include ensuring access to palliative care for patients with cancer and chronic kidney disease. The Ministry also funds hospitals, through Cancer Care Ontario, for providing certain palliative-care cancer programs, among other things. As well, the Ministry directly funds physicians for the hospital-, community- and home-based palliative care that they provide, and funds drug costs for eligible people through the Ontario Drug Benefit Program.

The total amount of Ministry funding used to provide palliative-care services is not known. Funding to hospitals ($16.3 billion in the 2013/14 fiscal year) and long-term-care homes ($3.4 billion in 2013/14) is not tracked specifically enough to isolate the amounts spent on palliative care. Similarly, the total cost of drugs for palliative-care patients is not tracked. While CCACs spent $112 million in 2013/14 ($108 million in 2012/13) on end-of-life home-care services during the last six months of patients' lives, information was not tracked on how much was spent in total on palliative-care services that commenced prior to the patient's last six months of life. As well, while CCACs funded hospices a total of $21 million in the 2013/14 fiscal year ($19 million in 2012/13), the Ministry had no information on funding that LHINs paid directly to hospices. Ministry information indicated that it paid physicians $62 million for providing palliative-care services to patients in 2012/13, the most recent period for which figures are available. Overall, palliative-care funding, based on costs that are known, was about $190 million in the 2012/13 fiscal year. This total is likely considerably lower than actual costs since it does not include, among other things, hospital-based costs and publicly funded drug costs.

Future Need for Palliative Care

The need for palliative care is growing due to the aging population. People aged 85 and over constituted the fastest-growing segment of Ontario's population between 2006 and 2011, with their number increasing by 29% over that period. The number of people aged 65 and over is expected to more than double from 2 million in 2012, when baby boomers began to turn 65, to over 4 million by 2036, when seniors will constitute 24% of Ontario's population. Because a larger percentage of Ontario's population will be nearing their end of life, and may also be living longer with advanced illnesses, this will create greater need for the provision of palliative care.

Summary

Many initiatives relating to palliative-care services are under way across Canada at both the national and provincial levels. They cover a wide variety of issues, including the need for better physician communication with patients about prognosis and the aim of treatment, the importance of patients developing an advance care plan outlining their end-of-life wishes, and improved integration of patient services so that people get the cost-effective care they need when they need it. Given Ontario's aging population and the expectation that people will live longer with advanced illnesses, both of which will likely increase the demand for palliative care, we thought it was important to audit this evolving area.

Palliative-care services in Ontario developed in a patchwork fashion, often being initiated by individuals who had a passion for this area of care, wherever they were located in the province. As a result, although efforts have been made to create an integrated, co-ordinated system to deliver palliative care in Ontario, no such system yet exists.

Currently, the Ministry lacks information on the palliative-care services available, their costs, the patient need for these services, or what mix of services would best meet patient needs in a cost-effective manner. Overall, despite its many initiatives, the Ministry does not yet have effective processes in place to ensure that there is sufficient public information on palliative-care services, or that patients nearing their end of life have timely and equitable access to cost-effective palliative services that meet their needs. The Ministry also lacks performance measures to help determine its progress in meeting its goal of providing the "right care at the right time in the right place," as stated in its 2012 Action Plan for Health Care in Ontario.

Some of the more significant areas we noted for improvement are as follows:

- ***Strategic policy framework not in place for palliative-care delivery system:*** In Ontario, one key initiative is the 2011 Declaration of Partnership, which established a common vision for the delivery of palliative-care services in this province and included over 90 commitments by various stakeholders to improve these services. However, three years after its creation, significant work still needs to be done to meet most of the commitments made in the Declaration of Partnership and measure the results achieved. Further, while the Declaration of Partnership is a good initiative, it should form part of a strategic policy framework for palliative care, which needs to be developed. Such a framework can provide direction to support the implementation of the commitments on a timely basis. It can also better support the many individuals we spoke with during our audit, whether at hospices or hospitals, who shared a passion for providing care to patients to maximize the quality of their remaining life.
- ***Ministry needs better information for decision-making and planning:*** There is little province-wide or LHIN-level information on the supply of or demand for palliative and

end-of-life care. For example, the Ministry does not have accurate information on the number of palliative-care beds in hospitals across the province, nor is the number of patients served tracked consistently. Consistent and comparable information is needed to make good decisions regarding current and future palliative-care services, and to ensure that patients get the services they need in the most cost-effective manner. This will be even more important in coming years because demand for palliative care is expected to increase as baby boomers approach the end of their lives.

- ***Mix of services should be reviewed to ensure patients' needs are met cost-effectively:*** While most people would prefer to die at home, most actually die in hospital. This is likely because people who need health care will go to a hospital when community services are not available. But over 60% of deaths are caused by cancer and chronic illnesses, which should allow planning that would let many of these patients die comfortably at home or in a hospice. Caring for terminally ill patients in an acute-care hospital is estimated to cost over 40% more than providing care in a hospital-based palliative-care unit, more than double the cost of providing care in a hospice bed, and over 10 times more than providing at-home care. In particular, the cost of providing palliative care in the last month of a patient's life averages about:
  - $1,100 per day in an acute-care hospital bed;
  - $630 to $770 per day in a bed in a palliative-care unit (at the two hospitals visited that tracked this information in a comparable way);
  - $460 per day in a hospice bed; and
  - under $100 per day where at-home care is provided.

By reviewing and adjusting the mix of services available, patient needs could be met more cost-effectively.

- ***Access to palliative-care services is not equitable:*** Because eligibility for and the supply of palliative-care services varies, patients who qualify for services in one area of the province may not have access to similar services in another area. For example, although best practices in various jurisdictions suggest there should be at least seven hospice beds per 100,000 people, Ontario has fewer than two, and some LHINs have no hospice beds at all. Therefore, patients who would benefit from these services may not be able to access them.
- ***Hospice beds could serve more patients:*** Overall, most hospices have an average daily occupancy rate of about 80%, which means beds are vacant up to 20% of the time, or the equivalent of over two months a year. The Ministry continues to fund hospices while the beds are vacant. The occupancy rate means Ontario hospices have the potential to serve more patients. Edmonton, for example, has a 92% occupancy benchmark.
- ***Patient care could be improved and health-care costs reduced:*** Physicians might not be comfortable talking about dying with patients. As a result, patients might not understand their prognosis, might not have an end-of-life care plan in place setting out their wishes, and might not be referred for palliative care until they are close to death, if at all. This can lead to increased costs in the health-care system—for example, due to prolonging expensive treatments such as chemotherapy that might neither extend nor improve life. Patients might suffer unnecessarily and have to visit their local emergency department, which also increases health-system costs, when they could more comfortably receive care at home.
- ***Education standards needed for physicians and nurses to help ensure proper patient care:*** There are no minimum education requirements for physicians or nurses providing palliative care, and differences in credentials were noted at the hospitals visited. In

addition, any physician can refer to himself or herself as a palliative-care physician, regardless of the extent of education or training received. The lack of standards in education and training could have an impact on patient care and comfort.

- ***Most publicly funded services used by cancer patients:*** Most of Ontario's publicly funded palliative-care services are used by cancer patients, even though as many people die each year from advanced chronic illness, including heart disease, stroke and chronic obstructive pulmonary disease. Without access to palliative-care services, patients with advanced chronic diseases other than cancer might not receive the best care, including better symptom control, in a cost-effective manner.
- ***More public awareness and education needed:*** Many people are not aware of palliative-care services or how to access them, which could result in unnecessary patient suffering and increased health-care costs. Patients might end up at an acute-care hospital instead of receiving more cost-effective care at home that better meets their needs.

OVERALL MINISTRY RESPONSE

The Ministry appreciates the comprehensive audit conducted by the Auditor General of palliative-care services and commits to fully responding to the recommendations.

This report and its recommendations represent an important complement to Ontario's blueprint for improving end-of-life and palliative care, *Advancing High Quality, High Value Palliative Care in Ontario: A Declaration of Partnership and Commitment to Action* (Declaration of Partnership). The Declaration of Partnership was established in 2011 by the Ministry with over 80 stakeholders and partners, and laid out a vision for improved end-of-life care for Ontarians. The Declaration of Partnership commits to establishing a system that serves all citizens with life-limiting illness and their families by working with key partners to support timely palliative care in all care settings.

As part of delivering on the commitments in the Declaration of Partnership, the Ministry and its partners have been working toward clearer descriptions of how much palliative care is provided to Ontarians and where this is provided. There are two key challenges: the sensitivities of delivering end-of-life care to patients and their families who may not be willing to accept this diagnosis, and the fact that not all life-limiting diseases follow a predictable trajectory. These challenges mean that not all patients nearing the end of their life have been assessed as palliative, and their care is not always categorized as palliative. However, the Ministry and its partners are committed to a model that integrates palliative care into chronic disease management. This model spans all phases of illness, recognizing that palliative care can be given at the same time as disease treatment and with the intensity of the supports increasing toward the end of life.

Ontarians benefit from a wide network of dedicated health-care professionals, volunteers, caregivers and family members, who collectively provide palliative care to patients nearing the end of their life. In addition, Ontario's Local Health Integration Networks (LHINs), responsible for planning, funding and integrating local health services, are establishing regional palliative networks composed of local health-service providers. These networks use the Declaration of Partnership to support the integration of services based on local circumstances and need, while collaborating at a provincial level to support best practices, consistency and standardization across the system.

The responsibility for establishing education standards for palliative-care health-service providers rests with our partners, including the Committee on the Accreditation of Canadian Medical Schools, the Royal College of Physicians and Surgeons of Canada, the College of Family Physicians of Canada, the College of Physicians and Surgeons of Ontario and the College of Nurses of Ontario. The Ministry will continue to work with these partners to ensure that Ontario's health-care system has the health human resources it needs.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Health and Long-Term Care (Ministry), in conjunction with the Local Health Integration Networks (LHINs), has effective processes in place to ensure that there is sufficient public information readily available on palliative-care services and that patients nearing their end of life have timely and equitable access to cost-effective palliative services that meet their needs. In addition, we assessed whether the services also meet the Ministry's goal of providing the "right care at the right time in the right place," as stated in its 2012 Action Plan for Health Care in Ontario.

We also assessed information available on the status of the commitments the Ministry made in the 2011 Declaration of Partnership and Commitment to Action titled *Advancing High Value, High Quality Palliative Care in Ontario.* Our audit work focused on palliative-care services for adults.

We conducted our audit work at the Ministry's offices and at the following facilities:

- three LHINs of varying sizes serving different regions of the province (Central West in Brampton, South West in London, and Toronto Central in Toronto);
- three Community Care Access Centres (CCACs) associated with the LHINs visited;
- three hospitals, one in each LHIN visited:
  - William Osler Health System, with a 25-bed palliative-care unit in Brampton (reduced to 14 beds in September 2014) and a 12-bed palliative care unit in Toronto (Central West);
  - St. Joseph's Health Care in London, with a 14-bed palliative-care unit (South West); and
  - Sunnybrook Health Sciences Centre, with a 32-bed palliative-care unit (Toronto Central).
- three hospices, one in each LHIN audited, in communities from urban to rural:
  - Bethell Hospice in Inglewood, with 10 beds (Central West);
  - Sakura House in Woodstock, with 10 beds (South West); and
  - Kensington Hospice in Toronto, with 10 beds (Toronto Central).

Senior ministry management and management at the LHINs, CCACs, hospitals and hospices we visited reviewed and accepted our objective and associated audit criteria. We conducted our fieldwork from February through May 2014.

The scope of our audit included the review and analysis of relevant files and administrative policies and procedures, as well as the results of patient and caregiver satisfaction surveys. In addition, we conducted interviews with staff. We also reviewed relevant research, including best practices for palliative-care services in other jurisdictions. (See **Appendix 4** for a list of selected reference sources.) As well, we obtained the perspective of the Ontario Hospital Association, which represents Ontario hospitals; Hospice Palliative Care Ontario, an organization that promotes awareness, education and best practices for hospice palliative care in Ontario; the Ontario Association of Community Care Access Centres, which represents the 14 CCACs across the province; and representatives from Cancer Care Ontario. We also obtained the perspective of the College of Nurses of Ontario and the Ontario Medical Association. We met with several expert palliative-care physicians from a variety of different organizations and engaged the services of an independent expert in palliative care to advise us.

Detailed Audit Observations

The following sections provide our audit observations on the palliative-care delivery system in Ontario, co-ordination of palliative-care services, access to end-of-life care services, education on end-of-life care services and planning, monitoring performance of the palliative-care delivery system, and implementation of the commitments in the 2011 *Advancing High Quality, High Value Palliative Care in Ontario: A Declaration of Partnership and Commitment to Action* (Declaration of Partnership).

Strategic Policy Framework Not in Place for Palliative-care Delivery System

Limited Information on System Demand and Capacity

The Ministry has not considered the demand for palliative care or determined the service levels needed to meet the demand. It relies on the 14 LHINs to determine the local level of need because they are responsible for planning and integrating local health services, including palliative care. However, none of the LHINs we visited had determined the local need for palliative-care services. The LHINs we visited told us that they usually relied on service providers—that is, individual hospitals, CCACs and hospices—or the local Palliative Care Network to identify and address any gaps in their services. All three of the LHINs we visited intended to play a more significant role in planning for palliative care in their regions in the future.

In December 2013, the Ontario Association of Community Care Access Centres released a series of four reports titled *Health Comes Home: A Conversation about the Future of Care*, which discussed the aging population and anticipated the increase in demand for palliative care. The reports pointed out certain changes that will be needed to meet demand, such as establishing a system that supports people who wish to die in their own home. The use of technology will also be important—for example, to support remote clinical interactions that enable patients who want to stay at home or in hospices to receive care.

Despite this recognition of the growing need for palliative-care services, no good information is available on the province's current capacity for providing these services, or how it will meet future demand. An April 2014 report by the Ontario Medical Association also noted that it is very difficult to determine service capacity because data is not kept on the number of palliative-care beds in the province or in each region. Furthermore, there is no data on the number of palliative-care service providers or the number of palliative-care services provided in hospitals or in the community.

Without reliable information on current service levels and demand for services, it is hard to make good decisions about where resources should be allocated to best meet the demand. As previously mentioned in the Background section, having this information will become even more important as the population ages.

Number and Type of Palliative-care Beds Needs Review

Many reports, including a 2007 report by the Canadian Institute for Health Information, indicate that most people would prefer to die at home if support were available. However, about 60% of deaths in Ontario occur in hospital. Many of these deaths are not sudden and could have been planned to occur elsewhere, such as at home or in a hospice. For example, over 30% of deaths are due to chronic illnesses and another 30% are due to cancer. Many people with these conditions could choose to die at home or in a hospice if they had adequate support.

Providing palliative care at home is less expensive (averaging less than $100 per patient per day, excluding drug costs, in the last month of life) than providing acute care in a hospital (over $1,100 per patient per day). A 2010 study called

Ideas and Opportunities for Bending the Health Care Cost Curve estimated savings of about $9 million for every 10% of patients who are shifted from receiving palliative care in an acute-care hospital to receiving care at home. In addition, when properly resourced, home-based palliative-care services result in higher patient and caregiver satisfaction with end-of-life care.

Hospice care is also less expensive than hospital care. According to Hospice Palliative Care Ontario, the total average cost of a palliative-care hospice bed is $460 a day (excluding drug costs). This is much less than the $1,100 provincial average daily cost of providing palliative care to a patient in an acute-care hospital bed.

Even within hospitals, the cost of palliative care in a unit designated for such purposes is less expensive than providing palliative care in an acute-care bed. (Hospitals can choose to treat palliative-care patients in regular acute-care beds located throughout the hospital, or they can designate a unit of the hospital for palliative care.) For example, at the two hospitals visited that tracked comparable information, the cost of a bed in a palliative-care unit ranged from $630 to $770 per day, compared to the provincial average of over $1,100 per day for a regular acute-care hospital bed.

Since acute-care hospital beds are the most expensive option for palliative-care services, they should be used only for patients with complex conditions requiring that level of care. Therefore, it is important to have the right mix of hospital and hospice beds to meet the needs of patients who cannot be cared for at home or prefer not to have a planned home death. Practices in various other jurisdictions indicate that in order to meet patients' needs, seven to 10 palliative-care beds (combined total in hospitals and hospices) should be available for every 100,000 people. A couple of jurisdictions have further broken down the suggested mix of hospice and hospital beds. For example, the Edmonton Zone of Alberta Health Services and British Columbia's Fraser Health Authority both propose that about 80% of beds should be in hospices and 20% in hospitals. By these standards, Ontario should have about 945 to 1,350 palliative-care beds province-wide, with about 755 to 1,080 beds in hospices and 190 to 270 in hospitals. However, we noted that Ontario's total of 271 hospice beds (of which 260 are funded by the Ministry) is significantly less than the estimated 755 to 1,080 hospice beds required to meet the needs of palliative-care patients cost-effectively. Given that hospital-based beds cost significantly more than hospice beds, there may be a need to rebalance the proportion of palliative-care beds in hospices to those in hospitals.

The Ministry lacks reliable information on the total number of palliative-care beds province-wide or even the total number of hospitals providing palliative-care services in Ontario. Furthermore, the Ministry was not aware of 10 hospices with a total of 59 beds, even though six of the hospices received Ministry funding through other programs. Without accurate information, the Ministry is unable to determine whether an appropriate number of palliative-care beds are available province-wide, and is unable to plan properly for future needs.

We found that the Ministry has not analyzed the costs of palliative-care services provided by hospitals, hospices and CCACs to determine any differences. Although the Ministry identified, in December 2013, the types of patients it expected to be served by each type of service provider, it had not provided any guidance or recommendation on the type of patients who would be best served by each type of provider. As a result, the Ministry has not determined the optimal mix of hospital beds, hospice beds and home-care services to best meet patients' needs cost-effectively.

Access to Palliative-care Beds Differs across the Province

Palliative-care services in Ontario have developed in a piecemeal fashion over the years. For example, hospitals can decide the extent of palliative-care services they will provide and whether any of their beds will be dedicated to palliative care. Hospices were often initiated by people with an interest or passion in the provision of end-of-life care. This has resulted in varied services and levels of service available across the province. The Ministry has not done an overall assessment of how palliative-care beds should be distributed geographically or how many are needed in each region to meet demand, to ensure that patients meet the Ministry and other stakeholders' core value, as stated in the 2011 Declaration of Partnership, of having equitable access to care regardless of where they live.

With respect to hospices, the 260 Ministry-funded hospice beds are not distributed equitably across the province, as shown in **Figure 2**. In particular, one LHIN has six hospices with 57 beds, while two other LHINs have no hospice beds at all. This disparity has existed since the Ministry started funding hospice beds in 2005. Funding was not based on an analysis of patient numbers or needs or any other factors. Instead, the Ministry funded all hospices with palliative-care beds that were operating at that time, and agreed to fund future hospice beds run by organizations that shared their plans with the Ministry at that time. As a result, easier access to hospice services depends on where a person lives.

We also noted that of the 34 hospices originally approved in 2005 for future funding by the Ministry, nine years later only 26 had opened.

While the Ministry did not have information on the total number of dedicated palliative-care beds (both in hospitals and hospices) in each LHIN, large discrepancies existed in the number of palliative-care beds in the LHINs we visited. One LHIN had only 5.9 palliative beds per 100,000 residents (dropping to 4.2 beds per 100,000 as of September 2014), while another had over triple this number at 18.5 palliative beds per 100,000 residents. However, while the LHIN with the higher number of beds also had more people over age 75, which may increase demand for palliative care beds as they are closer to the end of their lives, it was not triple the number. As a result, availability of palliative-care services varies greatly among regions. Provincial-level planning would better ensure that palliative beds are distributed based on patient need.

Figure 2: Publicly-funded Hospices with Palliative-care Beds, by Local Health Integration Network, September 2014

Source of data: Ministry of Health and Long-Term Care and Hospice Palliative Care Ontario

LHIN	# of Hospices	# of Beds	Total Hospice Beds per 100,000 Population
Central East	0	0	0.0
North West	0	0	0.0
Central	1	3	0.2
South East	1	3	0.6
Central West	1	10	1.2
Toronto Central	2	16	1.4
Mississauga Halton	3	18	1.5
Waterloo Wellington	2	16	2.1
South West	3	26	2.7
Erie St. Clair	2	18	2.8
North East	2	20	3.6
Hamilton Niagara Haldimand Brant	6	52	3.6
Champlain	6	57	4.5
North Simcoe Muskoka	3	21	4.5
Total	**32**	**260**	

Education Varies among Physicians and Nurses Providing Palliative Care

There are no province-wide mandatory education standards or programs for health-care providers who primarily provide palliative-care services. While all medical students must have at least some education on end-of-life care, any physician in Ontario can refer to himself or herself as a palliative-care physician. For example, at one hospital visited, experience among the physicians in the specialized palliative-care consultation team ranged from having no additional palliative-care education, to having taken some courses toward a palliative-care medicine program, to having completed a palliative-care program. The Royal College of Physicians and Surgeons of Canada announced in October 2013 that it is developing a two-year subspecialty program in palliative care. Once this program is introduced, it is expected that physicians will need to meet its requirements to call themselves palliative care specialists.

We also noted that the education requirements of nurses working in palliative care varied at the three hospitals visited. For example, one hospital did not require nurses to be certified in palliative care, but encouraged it. Another hospital, with two palliative-care programs, required newly hired nurses at one program to complete some courses on palliative care within 12 months, while existing staff were not required to do so. At its other program, nurses were encouraged to take additional courses but it was not required. The third hospital required all nurses to take a palliative-care fundamentals course within the first year of hire, and complete a more detailed course within 24 months. As a result, the level of nursing expertise on palliative-care units across the province can vary significantly, which may affect patient care and comfort.

Hospices Economically Dependent on Fundraising, Donations and Volunteers

The Ministry fully funds the cost of palliative-care services provided in hospitals. However, for hospices, it pays only a per-bed amount to cover the costs of nursing and personal support services. Hospice Palliative Care Ontario estimates that this amount covers just over 50% of the cost of providing hospice services. At the two hospices we visited that tracked costs in a comparable manner, ministry funding covered 64% and 75% of costs, respectively, which is still much less than total costs.

Hospices are expected to generate their own revenues for the remainder of their costs through fundraising or donations. Hospices also rely heavily on volunteers in order to operate. The hospices we visited had upward of 200 volunteers providing services such as reception, food preparation, grounds maintenance, companionship for patients and fundraising. As a result, there is a risk that hospices might not have the resources to operate if volunteering and fundraising priorities change in their community. In fact, one Ministry-funded hospice closed in part because it was unable to raise sufficient funds to continue operations.

RECOMMENDATION 1

The Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, should create an overall policy framework on the provision of palliative-care services in Ontario. This framework should include:

- the determination of available palliative-care resources and the total cost of currently providing palliative care services;
- an analysis of the cost of providing palliative care through different service providers (for example, hospital versus hospice versus home care);
- a projection of the best mix of services (for example, hospital versus hospice versus home care) to meet current and future patient needs;

- an assessment of current and potential future funding structures; and
- a position on educational requirements for health-care providers who provide palliative care.

In addition, a plan should be developed to implement the policy framework and ensure the ongoing provision of palliative-care services in accordance with the framework.

MINISTRY RESPONSE

The Ministry supports this recommendation and will work with the LHINs and other partners to develop and implement a policy framework that builds on the strong consensus achieved through the development of the Declaration of Partnership and Commitment to Action, by setting out Ontario's vision, goals and key performance metrics for a high-quality, high-value palliative-care system.

Lack of a Co-ordinated System

The Ministry has had two key palliative-care initiatives—the End-of-Life Care funding initiative (2005) and the Declaration of Partnership (2011). However, Ontario does not yet have a co-ordinated system for the delivery of palliative care that enables patients to move easily among health-care providers to receive needed services on a timely basis. Therefore, patients might not be connected with the services that best meet their needs and patient information might not be accessible to service providers on a timely basis for decision-making. As a result, patients might not receive the right care at the right time in the right place, in accordance with the Ministry's goal.

Furthermore, each LHIN can decide its own level of involvement with local palliative-care co-ordination. Not having a co-ordinated system has resulted in overlap and the duplication of efforts both within the LHINs and across the province. For example:

- Each of the CCACs produced unique brochures about its services to provide to patients and the public.
- Many of the hospices visited offered bereavement programs for families and caregivers, and each developed its own program.
- Each of the 14 LHINs is setting up a regional palliative-care process within its boundaries. Although some flexibility is needed to allow for local circumstances, there should be some standardized components to the process that could be adopted by each LHIN. Instead, each LHIN has created its own processes.

As well, there is no province-wide electronic patient records system that can be accessed by all care providers 24 hours a day, seven days a week. As a result, there is no consistent way of ensuring that patient information required for timely decision-making is readily available to all service providers of palliative care. For example, one hospital visited shared some clinical records electronically with other hospitals in its region; the second hospital visited shared some clinical records with hospitals in the region and in a neighbouring region; and the third hospital visited shared many records electronically with some other hospitals in its region. However, hospitals could not access CCAC records for a patient. Only one of the CCACs visited would forward patient referral information electronically to some of the hospitals in its region, although this and another CCAC visited were able to receive hospital referrals electronically. In addition, two of the three CCACs visited had an electronic process in place to refer patients to one hospice in their region. The other service providers we visited all relied on fax, phone or mail to transfer patient information.

The Province has ongoing initiatives by eHealth Ontario to enable the sharing of patient-related information among health-care providers caring for the patient, including the protection of the patient's privacy. Until these initiatives are implemented (well into the future), the cost-benefit of more widely adopting the electronic systems used for sharing patient information at the locations we visited should be reviewed. For example, such sharing can provide information to improve patient care and reduce unnecessary or duplicate tests when a patient arrives at the emergency department of a hospital.

The challenge of co-ordinating the delivery of palliative care services is not unique to Ontario. There is also no national strategy for palliative care. In June 2014, the Canadian Medical Association published *End-of-life Care: A National Dialogue*, which summarized the results of town hall meetings held across the country on palliative care, advance care directives for end-of-life care, and euthanasia. Among other things, it recommended developing a national strategy to support and improve access to palliative and end-of-life care.

RECOMMENDATION 2

To reduce the overlap and duplication of efforts both within the Local Health Integration Networks and across the province, the Ministry should implement a co-ordinated system for the delivery of palliative care that enables patients to move easily among health-care providers and receive needed palliative-care services on a timely basis. This should include consideration of the cost-benefit of shorter-term information technology solutions (such as those currently used by some health-care providers to inform patient-care decisions and reduce unnecessary or duplicate tests) to increase the sharing of patient related information, while longer-term initiatives are being pursued by eHealth Ontario.

MINISTRY RESPONSE

The Ministry will work with the Local Health Integration Networks (LHINs) and other partners to improve the co-ordination and delivery of palliative care, including facilitating the transition for patients who move between care settings and health-service providers.

The Ministry, LHINs and eHealth Ontario have been working to develop an approach that enables providers to transfer standardized patient information and make referrals between health-service provider organizations. The Ministry, through the provincial Resource Matching and Referral initiative, is supporting LHINs in implementing standardized referral tools, processes and data for referring patients from acute care to other care settings. Pilot projects are also underway to explore a range of technologies aimed at improving patient care.

Difficulties Accessing End-of-life Care Services

Barriers to Identifying and Informing Patients

The 2011 Declaration of Partnership indicates that a key priority is giving patients more timely access to palliative-care services. Early identification of people who would benefit from such services can help improve the comfort and quality of a patient's remaining life. However, the Ontario Medical Association, as well as other research, indicates that palliative-care patients are not being identified early for a number of reasons. The Clinical Council of the Hospice Palliative Care Provincial Steering Committee was established to drive clinical change for palliative care.

One reason is that there are no province-wide standardized tools or processes to identify patients who could benefit from palliative care. A simple method to assist service providers in identifying patients nearing their end of life is widely used in the United Kingdom, and is being adopted in many other jurisdictions. Under this method, physicians and other service providers ask themselves: "Would you be surprised if this patient died within one year?" If the answer is no, then discussions should be held with the patient about their prognosis and care options. At one hospital we visited, physicians asked this question about their cancer outpatients. This hospital told us it is planning to expand this practice for all of its inpatients by spring 2015.

Cancer Care Ontario commenced a pilot of this initiative in January 2014 at three regional cancer centres, and expected to determine if this initiative should be more widely adopted after the project's completion in 2017. Currently, Ontario physicians do not use any standard approach to identify candidates for palliative care.

According to a 2013 McMaster Health Forum evidence brief titled *Improving End-of-life Communication, Decision-making and Care in Ontario*, another reason that patients are identified late is that family physicians lack training about the palliative approach to care. Physicians may also find it difficult to discuss bad news with patients. Conversations we had with palliative-care physicians indicated that many family physicians, and sometimes specialists, are uncomfortable discussing dying with their patients. The June 2014 report by the Canadian Medical Association, *End-of-life Care: A National Dialogue* indicated that medical students and practising physicians require more education about palliative-care approaches, as well as how to initiate discussions about advance planning for end-of-life care.

Although there is a lack of province-wide tools or processes for the early identification of people requiring palliative care, the CCACs were undertaking an initiative that included meeting with family physicians in their area to inform them about CCAC services, including palliative care. As part of these discussions, the CCACs encourage physicians to identify patients who would benefit from palliative care. The three CCACs visited were at different stages of implementing this initiative and had connected with 12%, 36% and 91% of family physicians respectively. In addition, nurses from the palliative-care unit at one of the hospitals we visited held daily meetings with other nurses at the hospital to, among other things, help identify patients who would benefit from palliative care.

Palliative-care decisions are ultimately up to the patients and their caregivers. However, without complete information from their physician on their prognosis and options, patients and caregivers might believe that opting for palliative care is "giving up" and therefore continue to try all possible curative treatments, even when their condition means the harshness of the treatments could reduce their quality of life or hasten their death. As a result, people might not be referred for palliative-care services until they are very close to death, if they are referred at all. This can lead to increased costs in the health-care system—for example, due to prolonging costly treatments that might neither extend nor improve life. Furthermore, people might suffer unnecessarily or go to their local emergency department, which also increases health-system costs, when they could more comfortably receive care at home. A 2010 study published in The New England Journal of Medicine found that cancer patients receiving early palliative care experienced significant improvements in both quality of life and mood, received less aggressive (and therefore less expensive) care at the end of life, and lived 2.5 months longer than patients who continued with aggressive treatments. As also reflected in a 2013 McMaster Health Forum evidence brief, the current system does not support patients and families to make knowledgeable choices.

Although patients with terminal diagnoses of all conditions are eligible for services at the palliative-care providers we visited, we noted that most palliative-care services were provided to patients with cancer, due in part to its more predictable disease trajectory. Although cancer patients represent only 30% of Canadian deaths annually, they make up 80% of end-of-life clients for the CCACs and occupy approximately 85% of hospice beds. As a result, patients with other diseases who would benefit from palliative care might not have equal access to it when needed.

RECOMMENDATION 3

To better ensure that patients have complete information about their prognosis and care options, including palliative care (which can increase quality of remaining life and reduce health-care costs), the Ministry, in conjunction with stakeholders such as the Clinical Council of the Hospice Palliative Care Provincial Steering Committee, should:

- promote the adoption of a common process that enables physicians to more easily identify patients who might benefit from palliative care, such as by asking themselves: "Would you be surprised if this patient died within one year?"; and
- put processes in place, such as through education, to ensure that physicians are sufficiently knowledgeable about the palliative approach to care and are comfortable having end-of-life conversations with their patients, including discussing a terminal diagnosis and care options with patients who are dying.

MINISTRY RESPONSE

The Ministry accepts this recommendation and will work with the Clinical Council of the Hospice Palliative Care Provincial Steering Committee to develop an implementation plan.

At a patient level, it is important for providers within primary care, community, long-term-care homes (LTC homes), geriatric services as well as disease specialists like oncologists to be able to identify the patients within their programs and practices who are likely to die in the next year—to plan with them the care they want to receive over the last stages of their journey and to begin connecting them to the full range of supports and services they will need. Accordingly, the Ministry will continue exploring the use of appropriate assessment and identification tools, including standardized frailty measures in primary, community, LTC homes and specialty care to help providers ensure that more of their patients are appropriately identified. For example, the Ministry will continue to support the INTEGRATE project, which is developing an early identification tool-kit with check-lists and prompts based on the UK Gold Standards Framework and will evaluate its use in selected Ontario Family Health Teams and regional cancer centres.

The Ministry will work with its partners to continue to build upon educational standards and policies such as the "Decision-making for the End of Life Policy" developed by the College of Physicians and Surgeons of Ontario, to promote timely end-of-life conversations between physicians and patients.

Eligibility Requirements Vary among Service Providers

Various sources can refer patients for palliative care. For example, referrals to CCACs and hospices can be from family doctors or hospital discharge planners, or made by caregivers or patients themselves. For hospitals, referrals come from a physician or other health-care provider, such as a nurse.

Once a patient is referred, CCACs, hospices and hospitals assess the patient's eligibility for their services. While there are no province-wide standardized criteria for palliative-care services, all the hospices and hospitals visited based their determination, at least in part, on the Palliative Performance Scale, and one CCAC used it as a guideline. The scale helps determine a person's condition in several areas, such as evidence of disease, ability to perform self-care, intake of food and fluids, and level of consciousness. Based on research in this area, the score on this scale equates to an estimated time left to live for most patients, with a score of 100% indicating no evidence of disease and a score of 0% being death. (Dementia patients, who live longer than the prognosis attached to their score, are an exception.) Each of the hospices and hospitals we visited had developed its own eligibility criteria for the services provided based on the scale and other factors. Although the eligibility criteria at the hospices visited were not substantially different, each hospital visited required patients to have a different Palliative Performance Scale score, and therefore a different life expectancy, to be eligible. The required scores ranged from a low of 30% (totally bed-bound), with an estimated life expectancy of about 20 days at one hospital, to 40% (mainly in bed), with a life expectancy of about 39 days at another, to a high of 50% (mainly sit or lie down), with a life expectancy of about 76 days at the third.

In addition, one hospital program accepted patients referred by certain community physicians but had no process in place to confirm whether these patients otherwise met the criteria.

The CCACs also used different criteria and tools to assess patient eligibility for palliative home-care services. For example, one CCAC used the Palliative Performance Scale as a general guideline to help determine admission while the other two did not use this scale, and used alternative tools.

As a result, because eligibility for palliative-care services can vary, patients eligible for services in one area of the province might not be eligible for similar services in another.

Most of the service providers we visited also required patients who need end-of-life palliative care, and who are otherwise eligible for services, to agree to certain care approaches. For example:

- Two of the CCACs visited required patients to agree to a palliative approach, which includes pain and symptom management, and all three hospices visited required patients to cease any curative treatment, unless it was being administered to reduce pain, which is consistent with a palliative approach.
- All of the hospitals and hospices visited required inpatients to agree to a do-not-resuscitate confirmation in the event they stopped breathing or their heart stopped beating.

Patients who did not agree to these conditions could not access these services.

RECOMMENDATION 4

To better ensure that patients requiring palliative care, including end-of-life care, have similar access to similar services across the province, the Ministry, in conjunction with stakeholders including the Hospice Palliative Care Provincial Steering Committee, should ensure that standardized patient eligibility practices for similar palliative-care services are developed and implemented.

MINISTRY RESPONSE

The Ministry will work with the Clinical Council of the Hospice Palliative Care Provincial Steering Committee to explore the development of guidelines to support clinical decision-making regarding access to palliative care, including promoting consistent eligibility practices for similar palliative-care services.

Community Services Could Reduce Unnecessary and Expensive Hospital-based Care

For people receiving palliative care at home, access to care around the clock is critically important to their comfort and ability to remain at home. If adequate palliative-care services, such as access to physicians and nurses, are not available when needed, patients will likely go to the emergency department to get the required care. This is more difficult for patients because they must travel to hospital, sometimes by ambulance, and is also more expensive than providing patients with the care they need at home.

Better Access to Physicians Needed

In April 2014, the Ontario Medical Association estimated that the province has 150 to 250 palliative-care specialist physicians, and an additional 200 family physicians who provide mostly palliative care. However, the Ministry had not analyzed their distribution across the province relative to population or where they might be needed most.

Physicians determine whether they wish to provide home-based palliative care to patients. If they decide to do so, they may visit patients at home or be on call to provide telephone advice during evenings or weekends, for example. All three CCACs we visited had on-call physicians for evenings and weekends, although their availability varied. One of the CCACs visited had palliative-care physicians who made home visits only under exceptional circumstances, while another CCAC indicated that physicians have varying ability to do home visits.

In some instances, physicians might be reluctant to refer a patient to another physician for palliative care, because only one physician is permitted to bill the $63 fee each week for the patient's palliative-care case management. This fee is in addition to other fees the physician can bill for when providing care for the patient. Despite physicians' values stipulating that patients needs are paramount and must be considered before all else, the billing structure may inhibit good patient care. For example, specialists such as oncologists might be reluctant to refer patients to palliative-care physicians. As a result, some patients might not be referred to palliative-care specialists even though the referral might result in more suitable care. We were informed that the Ontario Medical Association has plans to clarify which physician should bill for a patient's palliative-care case management.

At the time of our audit, 15 expert palliative-care teams, operating in various parts of Ontario, were publicly funded through several Ministry programs. The teams include a physician and others specializing in palliative care, who supported family physicians involved in delivering palliative home care. A 2013 study commissioned jointly by the Ministry and Canadian Institutes of Health Research looked at 11 of these teams and found that their patients had a 30% lower likelihood of visiting an emergency department in their last two weeks of life and a 50% lower likelihood of dying in hospital. The study concluded that the expert palliative-care teams were effective at helping end-of-life patients avoid expensive late-life acute-care hospitalization. Health Quality Ontario, a provincial government agency that, among other things, reports to the public on the quality of the health care system, supports quality improvement activities and makes evidence-based recommendations on health-care funding, also noted in its summer 2014 report (released for public comment) that implementing palliative-care teams to provide in-home care could result in cost savings of at least $191 million a year. Increasing the number of such teams has the potential to reduce the need for patients nearing the end of their lives to visit emergency departments. The 2011 Declaration of Partnership proposed a new model under which family physicians could provide basic palliative care to patients instead of referring them to palliative-care physicians. This would free up the palliative-care physicians' time to focus on more complex patients, and to provide support to family physicians and other palliative-care providers when needed for less complex patients. However, according to an April 2014 report by the Ontario Medical Association, family physicians might have the misperception that they will be insufficiently compensated for providing palliative care, even though the report indicates that billing correctly for these services brings generous compensation. To mitigate this issue, the Ontario Medical Association is planning to arrange seminars on billing for palliative care.

RECOMMENDATION 5

In order to provide patients with the care they need in the community, and help prevent unnecessary and more expensive hospital-based care, the Ministry, in conjunction with the LHINs, should consider options for promoting the provision of palliative care by family physicians, such as the creation of additional palliative-care teams to support family physicians who deliver home-based palliative care. As well, the Ministry should assess physician payments for palliative care, within a palliative-care policy framework, to ensure that patients' needs are best met cost-effectively.

MINISTRY RESPONSE

The Ministry agrees with the recommendation that primary-care providers play a key role in the provision of palliative care. In conjunction with our partners, the Ministry will consider options for promoting the provision of palliative care by family physicians, within a palliative-care policy framework, to ensure that patients' needs are best met cost-effectively.

Better Access to Nurse Practitioners and Nurses Needed

The Ministry's September 2011 initiative for new nurse practitioners provided funding for 70 nurse practitioners for palliative care across the province. However, the allocation of funding, which was expected to amount to $8.1 million per year when all nurse practitioners were fully hired, was not based on factors such as the size of the LHIN, its existing resources, population needs or anticipated demand for palliative services. Instead, the funding was distributed evenly across the province, with each of the 14 LHINs receiving the same level of funding for five new nurse practitioners.

One of the Ministry's key objectives was to let patients have 24/7 access to palliative care at home. However, three years after its announcement, this initiative is not yet achieving its objective. Specifically:

- As of March 2014, the LHINs still had 14 of the 70 nurse practitioners left to hire, or 20%. By summer 2014, only eight of the 14 LHINs had filled all five positions; the rest were still in the process of hiring. The LHINS and CCACs visited indicated that they had difficulty filling these positions due to a lack of available nurse practitioners with palliative-care experience.
- At two of the CCACs visited, the nurse practitioners worked regular weekday hours, when other health-care services were also readily available. They normally did not work evenings or weekends. At the third CCAC, nurse practitioners worked from 8 a.m. until 8 p.m. seven days a week. This CCAC found that adding the nurse practitioners had a positive impact on hospital admissions: the admission rate for palliative patients without a nurse practitioner was 14% in the 2013/14 fiscal year, while for those with a nurse practitioner, it was only 2%. None of the CCACs visited had a formal on-call schedule for after-hours coverage by the nurse practitioners.

In the 2010/11 fiscal year, one CCAC we visited started an innovative program that involved one nurse working from home, providing advice to four personal support workers who work in patients' homes at night. The personal support workers received additional training to act on the nurse's behalf, and the contact nurse could dispatch a nurse from a CCAC home-care service provider to go to the patient's home if required. While this program did not lower costs, it increased the number of people available to provide care to patients at night. According to the CCAC's analysis, the percentage of patients with a hospital admission in the last 30 days of life decreased significantly under this program when compared to patients receiving regular home-care services.

RECOMMENDATION 6

The Ministry, in conjunction with the Local Health Integration Networks, should review the distribution of nurse practitioners to ensure that it reflects patient needs and provides patients with access to palliative care at home 24 hours a day, seven days a week. The Ministry should also work with other service providers to develop innovative alternatives for providing nursing care to patients at home.

MINISTRY RESPONSE

The Ministry will work with the LHINs to review the distribution of nurse practitioners and support palliative patients with access to care at home 24 hours a day, seven days a week. The

Ministry will also work with partners to identify and promote innovative alternatives that support access to care from a range of providers for patients at home.

Patients Waiting in Hospital for Other Palliative-care Services

People who no longer require hospital care but who remain in hospital while waiting for care elsewhere, are called alternate-level-of-care (ALC) patients. For example, palliative-care patients may wait in an acute-care hospital bed for home-care services, a hospice bed or transfer to a bed in a hospital palliative-care unit. Waiting in an acute-care bed is more expensive than receiving care elsewhere, and can be detrimental to the patient's health for various reasons, including the potential for a hospital-acquired infection. It also prevents other patients who could benefit from an acute-care hospital bed, such as those waiting in hospital emergency departments, from accessing a bed in a timely manner.

According to a report prepared by Cancer Care Ontario for the Ontario Hospital Association, as of April 2014, 137 of the province's 3,808 total ALC patients were waiting in a hospital bed for palliative services elsewhere. Further, according to Ministry data, 10% of all ALC days in Ontario in the 2013/14 fiscal year were due to patients waiting in hospital for palliative care elsewhere. This ranged from about 7% in the Waterloo Wellington and Central West LHINs to 15% in the North East LHIN.

We also noted that not all ALC days were tracked, although the Ministry requires hospitals to do so. Two of the three hospitals we visited did not reclassify patients as ALC if their discharges were delayed due to home-care services, including required equipment, not being ready. One of these hospitals told us that its CCAC does not meet with patients until their discharge date, and therefore, when larger equipment is needed (for example, a hospital-style bed), a patient's discharge is usually delayed a day or two until it can be put in place.

RECOMMENDATION 7

The Ministry, in conjunction with the Local Health Integration Networks, should ensure that hospitals across the province consistently track and report the extent of time patients no longer requiring acute care must wait in this more expensive setting for care at home or in a hospice, and take action where necessary.

MINISTRY RESPONSE

The Ministry agrees with the recommendation and presently requires hospitals to track the length of stay of patients designated alternate level of care (ALC). This information is regularly, on a monthly basis, reported by the Local Health Integration Networks (LHINs) and hospitals. However, the Ministry will review the current reporting requirements and will work with the LHINs to ensure that hospitals are consistently tracking and reporting this information for patients requiring palliative care.

Hospice Beds Not Used Optimally

For a number of reasons, hospices can have vacant beds but not accept patients. Some of the reasons are understandable: for example, hospices need some time after a patient's death to prepare the room for the next patient. However, other reasons are less understandable. For example, one of the hospices we visited limited patient admissions to one per day because of physician availability. As well, this hospice did not admit patients on weeknights or weekends because the pharmacy it used was closed. Another hospice accepted only crisis admissions on evenings and weekends, but this occurred only rarely. At the third hospice, admissions could occur at any time, with most made on weekdays. There is a risk that hospices do not serve as many patients as they could, and some patients not served may seek more expensive hospital care.

The Ministry requires hospices to have a minimum occupancy rate of 80% to fully fund them. In other words, their beds are to be occupied at least 80% of the time on average, and beds can be vacant up to 20% of the time, or over two months a year.

The occupancy rate at two of the hospices we visited was about 80% for the 2013/14 fiscal year—similar to the average occupancy rate province-wide. One of these hospices had a wait list. The third hospice had a lower occupancy rate of only 65% for the 2013/14 fiscal year, but even so, it received full funding from the Ministry. We noted that the Edmonton Zone of Alberta Health Services has a benchmark of 92% occupancy for the hospice sites it fully funds. Given this, and given that the average occupancy rate in Ontario hospices is only 80%, the potential is there for hospices to serve more patients.

RECOMMENDATION 8

To better ensure that hospice beds are available to patients when needed, the Ministry should explore, such as by reviewing best practices in other jurisdictions, the feasibility of increasing the occupancy rate of hospice beds from the current minimum of 80%.

MINISTRY RESPONSE

The Ministry agrees with the recommendation and will work in conjunction with the LHINs to review occupancy rates in residential hospices and consider the feasibility of increasing the occupancy rate of hospice beds.

Public Education on End-of-life Care Services and Planning Needs Improvement

Easier Public Access Needed to Information on Palliative-care Services

To help patients who could benefit from palliative care, more people need to learn what palliative care entails, what services exist in the community, and how to access these services. Otherwise, there is a risk that patients will suffer unnecessarily by not receiving timely palliative care, or that the health system will incur unnecessary costs when patients go to a hospital emergency department.

Information on palliative care is available from CCACs, hospitals, family physicians and other service providers. This information may be provided through websites, verbal discussion, brochures and/or newsletters to patients and their families, but not everyone knows to ask for the information or where to look for it. To address a broader spectrum of the population, the province-wide CCAC-sponsored website (thehealthline.ca) provides thousands of listings of health-care facilities, support groups and other services, including end-of-life care. However, this website does not provide eligibility criteria for services or any associated costs, so people cannot readily determine if a program might be appropriate for them or a loved one. The 2011 Declaration of Partnership also highlighted the issue that patients and their families do not know how to access the palliative-care services available to them.

At the time of our audit, the Communication and Awareness Working Group of the Ministry's Hospice Palliative Care Provincial Steering Committee was reviewing the public information available about palliative-care services. The working group planned to create a list of educational resources for the public and health-service providers by March 2015.

Need for Advance Care Planning for End-of-life Care

Advance care planning lets individuals communicate their values and wishes regarding health care in the event they become incapable of making such decisions. This planning involves discussions with family, friends and health-care providers, as well as appointing a substitute decision-maker who can speak for the person if the patient is unable to do so. For patients with a terminal illness, advance care planning helps ensure that they receive health care consistent with their preferences. For example, the plan might instruct a substitute decision-maker to withhold consent for aggressive treatment that could reduce the quality and in some cases the length of a person's remaining life. Advance care plans can be updated as needed, such as when a patient's condition or wishes change.

Health-care providers have recognized the importance of advance care planning, and initiatives to increase public awareness have taken place. Nationally, the Speak Up campaign, sponsored in part by Health Canada, began in 2011 and encouraged people to have conversations with loved ones about their plans. The Ministry endorses the associated Speak Up Ontario campaign, which informs Ontarians about advance care planning.

In April 2014, the Ontario Medical Association also indicated the importance of advance care planning in its End-of-Life Care funding initiative and highlighted the importance of making conversations about death and dying a more normal part of health-care discussions. The initiative cited 2011 research that 42% of dying patients require someone to make decisions for them, but noted that only one-quarter of people over the age of 30 had made an advance care plan for end-of-life care. The initiative also noted that advance care planning can lower health-care costs by decreasing the use of intensive-care units in hospitals and reducing the use of unbeneficial chemotherapy.

While only two of the hospices and one of the CCACs visited had a formal policy on discussing advance care planning with their patients, the other organizations visited all indicated that they would discuss advance care planning with their patients. However, we noted that once a patient creates an advance care plan, it is not readily available to all of the patient's health-care providers. For example, the CCACs we visited kept a copy of patients' advance care plans in their electronic information systems, which outside health-care providers, such as hospital staff and physicians, could not access. Having this information available to all of the patient's health-care providers would better ensure that providers can readily obtain consent from the patient or their substitute decision-maker to provide care in accordance with the patient's wishes.

Two hospitals we visited shared some patient clinical records electronically with hospitals in the region or in a neighbouring region, but not the advance care plans. However, another hospital we visited shared clinical records electronically, including advance care plans, with six other hospitals in the region. This hospital indicated that there is currently no province-wide standardized policy on where advance care plans should be documented in a patient chart, and so they are often documented as part of clinical notes. Therefore, although advance care plans are shared, other health-care providers have to go through lengthy records to find them. On this hospital's standard discharge summary, which is automatically shared with the patient's other service providers such as the family physician, one section indicates whether a patient opted to not receive cardiopulmonary resuscitation; however, a patient's full advance care plan is not included.

RECOMMENDATION 9

To better ensure that patients receive health care consistent with their preferences and reduce unnecessary health-care costs, the Ministry, in conjunction with stakeholders, should ensure that:

- **public information is readily available on palliative-care services and how to access them, as well as on the importance of advance care planning for end-of-life care to communicate health-care preferences; and**
- **processes are in place to allow health-care providers timely access to patients' advance care plans to inform their discussions with patients or their substitute decision-makers.**

MINISTRY RESPONSE

The Ministry will work with its partners to implement this recommendation by continuing to broaden the availability of public information on palliative care and the importance of advance care planning. The Ministry will also continue to support the work which is underway through the Communications and Public Awareness Working Group, which has been established by the Palliative Care Steering Committee.

Lack of Measures to Monitor Performance

Collecting and reviewing performance indicators is vital to assess whether a program is effective and helps identify areas that need improvement. Without a good monitoring system, resources can be misallocated. In this regard, we found that standardized measures were not in place to track palliative-care services. For example, although all CCACs recorded information on certain aspects of palliative care, such as number of patients served and number of home visits to patients, it was not being tracked in a consistent and comparable manner.

Although all the LHINs have service accountability agreements with both their CCACs and every hospital, only one hospital we visited had an agreement containing specific palliative-care indicators. This agreement was between one LHIN and one hospital and included two indicators: the proportion of admissions to palliative-care units through the emergency department, and the rate of hospital readmission for patients requiring palliative care. Overall, the LHINs had little information on the delivery of palliative-care services at hospitals and CCACs, and could not evaluate the efficiency or effectiveness of these services.

With respect to hospices, the Ministry has not analyzed whether the $108 million provided in total through the CCACs to hospices between the fiscal years 2005/06 (when the Ministry first started funding hospices) and 2013/14 has reduced the number of alternate-level-of-care patients (that is, patients who are waiting in an acute-care hospital bed for care elsewhere) or reduced emergency department visits. Furthermore, while most hospices voluntarily submitted information to the Hospice Palliative Care Association on indicators such as the locations from which patients were admitted, age of patients served and the number of deaths, this data was not tracked in a consistent manner and was therefore not comparable.

To help address the lack of standardized performance measures for palliative care, a working group of the Hospice Palliative Care Provincial Steering Committee is attempting to identify five key provincial palliative-care indicators. The group expects to complete this work by fall 2014. It will be collaborating with a working group of Health Quality Ontario, which is in the early stages of developing best-practice and evidence-based quality indicators for palliative care.

Consistent and comparable information is needed to make good decisions about current and future palliative-care services. A provincial set of performance indicators would allow benchmarks to be established and comparisons to be made across similar programs province-wide; this could facilitate the sharing of palliative-care best practices. These indicators could also be used for LHINs to hold health-care service providers accountable for achieving a certain level of performance and in turn for the Ministry to better hold LHINs accountable.

RECOMMENDATION 10

To better monitor the delivery of palliative-care services in Ontario, the Ministry, in conjunction with the Hospice Palliative Care Provincial Steering Committee, should adopt standard palliative-care performance indicators and associated targeted performance levels for all key service providers to allow the comparison of their programs' efficiency and effectiveness, and to identify areas requiring improvement.

MINISTRY RESPONSE

The Ministry supports this recommendation and will work with its partners to address implementation.

Work is underway through a Data and Performance Working Group, which is co-chaired by the LHINs and Cancer Care Ontario, to develop and implement a data and performance measurement strategy for the delivery of palliative care in Ontario.

2011 Vision for Palliative Care Lacks Linkage to Government Policy Framework

Since 2005, the Ministry has supported a number of initiatives intended to improve palliative-care service delivery. As shown in **Appendix 2**, these initiatives focus on a number of areas, including improving patient access to palliative care (for example, through better co-ordination and integration of palliative-care services and service providers); providing educational support for service providers; building public awareness of palliative services and the importance of advance care planning for end of life; and developing provincial indicators for monitoring palliative care.

In 2005, the Ministry established a three-year provincial End-of-Life Care funding initiative to:

- shift care of the dying from acute-care settings (mainly hospitals) to appropriate alternative settings such as at home and hospices;
- enhance and develop multidisciplinary service capacity in the community; and
- improve access to, co-ordination of and consistency of services and supports across the province.

A Ministry-funded analysis completed in 2008 found that an increased number of patients were receiving care in the community. It also found improved communication among providers of palliative-care services and improved care co-ordination for patients. However, it noted that inequities and barriers to accessing end-of-life care still existed across regions and service sectors in Ontario.

Subsequently, in 2011, *Advancing High Quality, High Value Palliative Care in Ontario: A Declaration of Partnership and Commitment to Action* (Declaration of Partnership) was issued jointly by the Ministry, LHINs and the Quality Hospice Palliative Care Coalition of Ontario. The document reflected a collaboration by more than 80 stakeholders from across Ontario to develop a vision for the delivery of palliative care in the province. These stakeholders included the Ministry, LHINs, CCACs, hospitals, Hospice Palliative Care Ontario, the College of Nurses of Ontario and the Ontario College of Family Physicians. The Declaration of Partnership's main goal is greater system integration that puts patients and their families at the core of decisions being made to improve end-of-life care. Other key goals are to improve client/family, caregiver and provider experience by delivering high-quality, seamless care and support; improve, maintain and support the quality of life and health of people with progressive life-limiting illnesses; and deliver better care more cost-effectively and create a continuously self-improving system.

The Declaration of Partnership includes over 90 commitments by stakeholders to improve the delivery of palliative care in Ontario. Responsibility for most of the commitments rests with the following three parties:

- the Ministry (responsible for about 35% of the commitments, many in partnership with the LHINs and other stakeholders)—for creating policy and providing stewardship;
- the LHINs (responsible for about 45% of the commitments)—for implementing a regional structure to deliver palliative care; and
- the Quality Hospice Palliative Care Coalition of Ontario (responsible for about 20% of the commitments)—for strengthening caregiver supports, improving service capacity and developing public education and awareness opportunities.

In December 2012, a Hospice Palliative Care Provincial Steering Committee was established to oversee the implementation of the Declaration of Partnership. The committee oversees three working groups and a clinical council:

- Residential Hospice Working Group—to develop, among other things, options for the implementation of best practices for hospices;
- Data and Performance/Quality Working Group—to develop a set of provincial indicators for palliative care;
- Communication and Awareness Working Group—to review websites regarding palliative care, with a goal of creating a central hub of information; and
- Clinical Council—to drive clinical change and ensure physicians are engaged and supportive of the work being undertaken on the Declaration of Partnership.

The Hospice Palliative Care Provincial Steering Committee is expected to report in fall 2014 on the status, as of March 2014, of the Declaration of Partnership commitments.

Although the Declaration of Partnership is comprehensive with regard to palliative care, we noted that it included almost no timelines for implementation or other accountability components. Instead, the stakeholders committed to take action "as soon as practical." The Ministry did establish a March 2015 deadline for the LHINs to accomplish seven core deliverables, including the creation of a regional palliative-care structure and outreach processes, implementation of a care co-ordination role, establishment of performance-related measures and an update of accountability agreements with service providers to improve accountability. We found that all the LHINs visited had made some progress in implementing a care co-ordination role and were working toward accomplishing the other core deliverables. However, at the time of our audit, it was unlikely that the three LHINs visited would meet all of the core deliverables by the March 2015 deadline.

Overall, significantly more work needs to be done by the Ministry, LHINs and the Quality Hospice Palliative Care Coalition of Ontario to complete the key commitments in the Declaration of Partnership. For example, the LHINs visited still need to complete a gap analysis of the palliative-care services that exist within their areas and update their accountability agreements with hospitals and CCACs to include palliative-care performance. The Ministry still needs to develop policy statements to promote interprofessional teams to deliver palliative care. As well, the Quality Hospice Palliative Care Coalition of Ontario still needs to co-ordinate common information guides that would be available provincially and adopted by all sectors. The commitments in the Declaration of Partnership should be linked to a policy framework for approval by the government. This framework could outline the necessary direction and funding to support the implementation of the commitments.

RECOMMENDATION 11

To better ensure that the key goals and commitments made in the 2011 document *Advancing High Quality, High Value Palliative Care in Ontario: A Declaration of Partnership and Commitment to Action* (Declaration of Partnership) are being addressed on a timely basis, the Ministry, in conjunction with the Hospice Palliative Care Provincial Steering Committee, should link the Declaration of Partnership to a policy framework for approval by the government. Such action would provide the necessary direction and funding if needed to ensure that timelines for implementing the commitments are established, along with effective oversight to regularly monitor the implementation's progress and take action where necessary.

MINISTRY RESPONSE

This Ministry appreciates the Auditor General's positive feedback regarding the strategic value of the Declaration of Partnership and will take appropriate steps to develop and seek approval for a policy framework that addresses this recommendation.

Appendix 1—Roles and Responsibilities of Selected Organizations

Prepared by the Office of the Auditor General of Ontario

Organization*	Key Responsibilities
Ministry of Health and Long-Term Care (Ministry)	The Ministry of Health and Long-Term Care has overall responsibility for Ontario's health-care system, including palliative-care services. This involves establishing overall strategic direction; monitoring and reporting on the performance of the health system; planning for and establishing palliative-care funding models; and ensuring that strategic directions and expectations are fulfilled. The Ministry funds various palliative services through the Local Health Integration Networks, including hospitals, Community Care Access Centres, hospices and long-term-care homes. The Ministry also funds Cancer Care Ontario to fund certain hospital services, including palliative care for cancer and chronic kidney disease patients.
Local Health Integration Networks (LHINs)	Ontario has 14 Local Health Integration Networks. LHINs are responsible for planning, co-ordinating, funding and monitoring palliative-care services in their regions. LHINs also lead the development of palliative-care models, which set out how palliative-care services are delivered within their area. As well, LHINs flow Ministry funding to palliative service providers either directly (such as to hospitals and some hospices) or through the Community Care Access Centres.
Community Care Access Centres (CCACs)	There are 14 Community Care Access Centres across the province, one in each LHIN. The CCACs accept referrals and determine eligibility for patients requiring home-care services, such as in-home nursing and personal support, or a hospice. The CCACs arrange for these services, which they provide directly or through external service providers. As well, the CCACs provide referrals to other community-based support services, such as those offering transportation.
Hospitals	Ontario hospitals may provide palliative-care services to patients in a regular acute-care bed, in beds used for palliative care that may be in a separate hospital ward, or through outpatient services.
Hospices	Ontario has 36 hospices with 271 beds (including four hospices with 11 beds that are not funded by the Ministry) that provide a home-like environment where people with life-threatening illnesses receive end-of-life care. These services include pain and symptom management, and compassionate care during the last stages of a patient's life. Hospices may offer day programs and other programs such as anticipatory grief and bereavement counselling for family and caregivers.
Long-term-care (LTC) Homes	Ontario has over 630 long-term-care homes with 76,000 beds. LTC homes may provide palliative-care services to residents as needed.
Palliative Care Networks	Twelve of the 14 LHINs have a Palliative Care Network. Members of the networks are palliative-care service providers, including the associated CCAC, hospitals and physicians within the LHIN. The networks' goal is to improve palliative-care services within the LHIN by bringing service providers together to discuss, plan and co-ordinate palliative care.
Cancer Care Ontario and Regional Cancer Programs	Cancer Care Ontario is the provincial government agency primarily responsible for, among other things, improving Ontario's cancer and chronic kidney disease health systems, including access to palliative care for these patients. Its palliative-care services program is provided through 13 Regional Cancer Programs.

* In addition to the organizations listed, there are a number of other community-based organizations, over 60 of which receive funding from the Ministry, that provide support services, such as companionship visits, caregiver support and group counselling sessions, for persons with advanced illness in their homes or in the community.

Appendix 2—Key Ministry Initiatives to Improve Palliative Care in Ontario

Prepared by the Office of the Auditor General of Ontario

Provincial End-of-Life Care Funding Initiative, October 2005—The objectives of this three-year funding initiative were to:

- shift care of the dying from acute-care settings (mainly hospitals) to appropriate alternative settings, such as at home and hospices;
- enhance and develop multidisciplinary service capacity in the community; and
- improve access, co-ordination and consistency of services and supports across the province.

Integrated Client Care Project, March 2011—This is a multi-year initiative that focuses on integrating services across certain health-care areas: primary care, home care, hospitals and community support services. The project's second phase, which was launched in September 2011, involves palliative care and is ongoing. It includes developing a process for patients to navigate the palliative-care system, and using care teams to assess patients' needs and co-ordinate care with the appropriate health service providers (e.g., home-care providers or other community support service organizations).

Palliative Care and Collaborative Practice Mentorship Program, December 2011—This program, run through Cancer Care Ontario, aimed to build supportive relationships between inter-professional primary health-care teams (including physicians and nurses) and palliative-care experts, increase palliative-care knowledge and skills, and enhance collaborative practice. This program is in the last of four phases, and is expected to benefit cancer patients as well as palliative-care patients with other diagnoses.

Community-based Nurse Practitioners Initiative (9,000 Nurses Initiative), September 2011—This initiative included Ministry funding for the addition of 70 nurse practitioners (five new nurse practitioners per Community Care Access Centre) to provide community-based palliative care across the province. The program's goals included providing 24/7 coverage for patients requiring palliative care at home.

Advancing High Value, High Quality Palliative Care in Ontario—A Declaration of Partnership and Commitment to Action, December 2011—This document outlines a shared vision of the Ministry and about 80 other stakeholders, and goals for Ontario's palliative-care system. It includes over 90 commitments by stakeholders to improve the delivery of palliative care.

Hospice Palliative Care Provincial Steering Committee, December 2012—This committee was created to guide collaborative efforts to achieve the commitments in the Declaration of Partnership. Membership consists of stakeholders including representatives from the Ministry, LHINs, CCACs, Quality Hospice Palliative Care Coalition, Cancer Care Ontario, Ontario Hospital Association, Hospice Palliative Care Ontario, Provincial End of Life Care Network, Ontario Long-Term Care Association, Ontario Association of Non-Profit Homes and Services for Seniors, Community Support Service providers and the Ontario College of Nurses. The committee reports to the Ministry/LHIN CEO Management Committee, which meets to discuss major system transition issues, strategies and policy changes.

The steering committee has three working groups and a council:

- Residential Hospice Working Group—to develop, among other things, options for the future implementation of best practices for hospices;
- Data and Performance/Quality Working Group—to develop a set of provincial indicators for palliative care;
- Communication and Awareness Working Group—to review websites regarding palliative care, with a goal of creating a central hub of information; and
- Clinical Council—to drive clinical change and ensure that physicians are engaged and supportive of the work being undertaken on the Declaration of Partnership.

Health Links, December 2012—Established to encourage greater collaboration among health-care providers, including family physicians, specialists, hospitals and home-care service providers, for their high-needs patients. These may include patients requiring palliative care. As of July 2014, 47 Health Links groups have been established and more are planned.

Appendix 3—Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Acute-care hospital—A hospital that offers short-term, intensive inpatient treatment and care to patients with serious health problems. An acute-care hospital can provide palliative care to patients in a designated palliative-care unit or in regular beds throughout the hospital.

Advance care planning—A process to communicate an individual's values and wishes to others regarding future health-care preferences in the event that the patient becomes incapable of making health-care decisions.

Alternate level of care (ALC)—A designation that is applied when an individual is ready to be discharged from hospital, but is waiting in a hospital bed for post-discharge care to be arranged, such as home-based palliative care or placement in a hospice or long-term-care facility.

Canadian Hospice Palliative Care Association (CHPCA)—A national association that advocates for good-quality palliative care, including end-of-life care. This includes promoting public policy, education and awareness of palliative care.

Canadian Institute for Health Information (CIHI)—A not-for-profit organization created by the federal, provincial and territorial governments that collects and analyzes information on health-related matters in Canada, including palliative care. CIHI's data and reports may be used to inform health policies, support the effective delivery of health services and raise awareness among Canadians of the factors that contribute to good health.

Canadian Institutes of Health Research—The government of Canada's health research investment agency, which works to create new scientific knowledge and to enable its translation into improved health, more effective health services and products, and a strengthened Canadian health-care system. It is composed of 13 institutes and provides leadership and support to health researchers and trainees across the country.

Canadian Medical Association—A voluntary professional association that, among other things, advocates for physicians and patients in Canada.

Cancer Care Ontario—A provincial government agency responsible for, among other things, improving cancer and chronic kidney disease services, including palliative care, in Ontario.

Community Care Access Centres (CCACs)—CCACs co-ordinate home and community services for seniors, people with disabilities and people who need health-care services to help them live independently. CCAC services include providing palliative home-based care, and co-ordinating long-term-care home placements and most hospice placements. There are 14 CCACs across the province, one for each Local Health Integration Network.

Cardiopulmonary resuscitation (CPR)—A series of lifesaving procedures that include chest compressions to assist with blood circulation to the heart and brain, improving the chance of survival for patients who experience cardiac arrest.

Declaration of Partnership—The short name for the 2011 vision for palliative care in Ontario: *Advancing High Quality, High Value Palliative Care in Ontario: A Declaration of Partnership and Commitment to Action.* This document was developed by the Ministry of Health and Long-Term Care and about 80 stakeholders. The Declaration of Partnership outlined goals for a palliative-care system, and included over 90 commitments by stakeholders to improve the delivery of palliative care in Ontario.

Do-not-resuscitate (DNR) confirmation—A document signed by a medical professional indicating that a patient does not want lifesaving measures such as cardiopulmonary resuscitation (CPR) if his or her heart or breathing stops. DNR confirmations are mostly used by patients who would not benefit from CPR, for example, because they have a terminal illness and are nearing their end of life.

Health Quality Ontario (HQO)—A provincial agency that evaluates the effectiveness of new health-care technologies and services, reports to the public on the quality of the health-care system, supports quality improvement activities, and makes evidence-based recommendations on health-care funding.

Hospice—A home-like facility that provides palliative care to terminally ill people and their families. Residential hospices provide accommodation for people who do not require hospital-based care, but either cannot be cared for at home or do not wish to remain at home, in the last weeks or months of life.

Hospice Palliative Care Ontario (HPCO)—An organization that, among other things, promotes awareness, education and best practices in the provision of palliative care in Ontario. Its member organizations deliver palliative-care services in Ontario.

Hospice Palliative Care Provincial Steering Committee—A committee of numerous stakeholders established in December 2012 to guide collaborative efforts to achieve the commitments in the Declaration of Partnership. Members include the Ministry of Health and Long-Term Care, LHINs, CCACs, Hospice Palliative Care Ontario, Quality Hospice Palliative Care Coalition, Cancer Care Ontario, Ontario Hospital Association, Provincial End of Life Care Network, Ontario Long-Term Care Association, Ontario Association of Non-Profit Homes and Services for Seniors, Community Support Service providers, Cancer Care Ontario palliative-care physician group, and the Ontario College of Nurses. The committee reports to the Ministry/LHIN CEO Management Committee, which meets regularly to discuss major system transition issues, strategies and policy changes.

Local Health Integration Network (LHIN)—LHINs are responsible for prioritizing and planning health services in Ontario and for funding certain health-service providers, including hospitals and CCACs. There are 14 LHINs, representing 14 geographic areas of Ontario; each LHIN is accountable to the Ministry of Health and Long-Term Care. Each hospital and CCAC is directly accountable to its LHIN, rather than to the Ministry, for most matters.

Long-term-care home (LTC home)—These provide care, services and accommodations to people who require the availability of 24-hour nursing care, supervision in a secure setting, or frequent assistance with activities of daily living such as dressing and bathing. LTC homes can provide palliative care to their residents. LTC homes are sometimes called nursing homes or homes for the aged. LTC homes are legislated by and receive funding from the Ministry of Health and Long-Term Care.

Nurse practitioner (NP)—A registered nurse with additional education and experience, and therefore able to order and interpret diagnostic tests, communicate diagnoses and prescribe drugs to patients.

Oncologist—A physician who specializes in treating people with cancer.

Ontario Association of Community Care Access Centres (OACCAC)—A not-for-profit organization that represents and supports the common interests of the 14 Community Care Access Centres.

Ontario Medical Association—A professional association that represents the interests of Ontario's medical profession, including negotiating compensation for Ontario's physicians with the Ministry of Health and Long-Term Care.

Palliative care—Palliative care is aimed at relieving pain and suffering and improving the quality of life for people who are living with, or dying from, an advanced illness or are bereaved. Palliative care aims to meet not only physical needs, but also the psychological, social, cultural, emotional and spiritual needs of each patient and his or her family.

Palliative Care Network—Brings together local stakeholders (such as hospitals, CCACs, community support services, physicians and educators) to improve the quality of palliative care. Membership usually includes individuals or organizations with an interest in palliative care. The networks coincide with LHIN geographic boundaries; currently, 12 of the 14 LHINs have a network.

Palliative-care physician—A physician with competence in the provision of palliative care including the ability to assess and manage pain, and to address psychological, social, and spiritual issues that might arise when treating patients with a terminal illness.

Palliative-care unit—An inpatient hospital unit that focuses on providing care and comfort, including pain control and symptom management, for people who are nearing the end of life, as well as helping patients and their families manage distress and other emotions faced at the end stages of life.

Palliative Performance Scale—An assessment tool that measures a patient's functional status and assigns a score. The lower the score, the less time the patient is estimated to have remaining to live. The scale provides a way to measure progressive decline over the course of a patient's illness.

Personal support worker—Provides non-medical care to patients, which may include assistance with tasks of daily living such as personal hygiene and eating, as well as homemaking, such as changing bed linens and meal preparation.

Quality Hospice Palliative Care Coalition of Ontario—Formed in 2010 to bring together Ontario organizations with an interest in palliative care, including Hospice Palliative Care Ontario, the Ontario Association of CCACs, the Ontario Medical Association and universities. The coalition's goal is to ensure good-quality palliative care for all Ontarians. It participated in developing the Declaration of Partnership report.

Royal College of Physicians and Surgeons of Canada—The national professional association that oversees, among other things, the medical education of specialists in Canada, including accrediting university programs that train resident physicians for specialty practices.

Speak Up—A national campaign developed by organizations including the Canadian Hospice Palliative Care Association and the Canadian Researchers of the End of Life Network to raise awareness of the importance of advance care planning.

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Chapter 3

Ministry of Citizenship and Immigration

Section
3.09 Provincial Nominee Program

Background

There are many immigration selection programs through which immigrants can arrive in Ontario. They are all administered exclusively by the federal government, except for the Provincial Nominee Program, which was introduced in 1998 to give provinces and territories a way to respond to local economic development needs. The federal *Immigration and Refugee Protection Act* defines three potential classes of immigrants for permanent resident status: economic class immigrants, family class immigrants, and refugees. Immigrants selected through the Ontario Provincial Nominee Program (Program) are considered economic class immigrants. That is, they are to be selected on the basis of their potential economic contribution to the province.

The Program is delivered by the Ministry of Citizenship, Immigration and International Trade (Ministry) under the authority of an annex to the Canada-Ontario Immigration Agreement. Although the agreement expired in 2011, the annex is in effect until May 2015. The annex allows Ontario to select and recommend ("nominate") to the federal government a number of foreign nationals and their accompanying family members for Canadian permanent residence. Nomination is to be based on the individual's ability to be of benefit to Ontario's economic development and his or her strong likelihood of becoming economically established in the province.

At the time of our audit, all provinces and territories except for Quebec and Nunavut had a provincial nominee program. Among the participating jurisdictions, Ontario was the last one to adopt this program, in 2007.

Program Components

Provinces and territories determine their own program components and eligibility criteria. At the time of our audit, the Ontario Program had three components:

- *Employer-driven component:* allows Ontario businesses to fill permanent positions in professional, managerial or skilled trades occupations with foreign workers (who may be living abroad or in Canada on temporary work permits at the time of applying to the Program) and international students with undergraduate degrees.
- *Ontario graduate component:* allows international students who are graduating or who recently graduated from an Ontario university with a PhD or a master's degree to qualify for a nomination without a job offer.

- *Investment component:* allows investors to permanently relocate staff (who may be foreign workers at the time of applying to the Program or individual investors themselves) to Ontario to ensure the long-term success of their investment in the province, while creating jobs for Ontarians.

Federal immigration regulations exclude individuals who engage in an "immigration-linked investment scheme" from being nominated. Immigration-linked investment schemes are business ventures primarily designed to bring immigrants to Canada rather than operate as bona fide businesses. For this reason, among others, projects in the investment component—which involve the set-up of new business operations or recent expansions to existing businesses in Ontario—must first be endorsed by an Ontario government ministry that would be familiar with the industry to which the investment project is related (such as the Ministry of Tourism, Culture and Sport for a hotel). The assessing ministry's job is to determine whether the investment is of significant benefit to the province, whether it is reasonable and viable, and whether the positions requested for foreign workers are key to the long-term success of the investment. The Ministry can override the assessing ministries' decision to endorse investment projects. After an investment project is endorsed, foreign workers and/or individual investors wishing to work for the project and become permanent residents apply to the Ministry to be nominees.

For a detailed description of eligibility criteria relating to the various nomination categories within the different components and the number of approved nominees in each, refer to **Figure 1**.

Nomination Process

Prospective nominees need to complete a nominee application demonstrating that they meet program requirements, which may include requirements for legal status, work experience, education, language testing and/or residency, before being approved as a nominee under the Program. For nominees with a job offer, the employer must first submit an application outlining specifics of the position; the Program then assesses whether the job offer meets eligibility criteria regarding position type, wage rates and employer size. Once an applicant is approved, the Program sends him or her a nomination certificate. The nominee then has six months to apply for a permanent resident visa from Citizenship and Immigration Canada, which further assesses the nominee for admissibility. This is to ensure that the nominee does not pose a security risk to the country, does not have a serious medical condition and is not a criminal. The federal government has the final say on whether a provincial nominee is granted a permanent resident visa.

The Program allows applicants to designate individuals as their representatives, which gives those individuals the power to communicate with the Ministry on the applicant's behalf. The use of a representative is not mandatory. There are two kinds of representatives: paid and unpaid (such as a relative). Paid representatives are typically immigration lawyers, who must be registered with the Law Society of Upper Canada, or immigration consultants, who must be registered with the Immigration Consultants of Canada Regulatory Council. In 2013, 29% of applicants to the Program used a paid representative.

Program Scale and Rationale

In the seven years from when the Program began in 2007 to 2013, Ontario nominated about 5,100 foreign workers, investors and international students to work and live in the province under the Program. An additional 1,500 individuals were nominated under the Program in the first six months of 2014. As shown in **Figure 1**, as of April 30, 2014, a total of 7,100 people, consisting of 3,900 nominees and 3,200 of their family members, have become permanent residents in Canada through the Program. The Ministry expects the federal government

Figure 1: Overview of Nomination Categories, Eligibility Criteria, Fees, and Selected Statistics

Source of data: Ministry of Citizenship, Immigration and International Trade

Nominaton Categories (Year Began)	Nomination Based on Job Offer?	Criteria for Employer/Investment	Criteria for Potential Nominee	Nominated (2007–2013)	# Landed (as of April 30, 2014)		Application Fees
					Principal Applicants	**Eligible Family Members**	
Foreign worker seeking employment with an employer (2007)	Yes	Job position must be skilled, permanent, full-time and command a market wage. Employer must have at least $1 million in gross revenue and employ five full-time permanent employees if located in the GTA, or $500,000 in gross revenue and employ three full-time permanent employees if located elsewhere in province.	Foreign worker must • have at least two years of full-time, verifiable work experience within the last five years in the intended occupation.	2,265	1,682	2,600	$1,500 (if non-GTA) or $2,500 (if GTA)
Foreign worker or investor seeking employment in an investment project (2007)	Yes	Investment must be at least $3 million in total, create at least five net new permanent full-time jobs for Ontarians for the first nominee position requested (and one permanent full-time job for each subsequent nominee position requested) and be endorsed by an Ontario ministry.	Foreign worker must • have at least two years of full-time, verifiable work experience within the last five years in the intended occupation. Individual investor must • invest at least $1 million or control at least 1/3 of equity in the investment project (lesser of the two); • be actively involved on an ongoing basis in the management of the business; and • be investing primarily because of the business opportunity represented by the investment project and not to purchase permanent residence.	52	34	57	$3,500

Nominaton Categories (Year Began)	Nomination Based on Job Offer?	Criteria for Employer/Investment	Criteria for Potential Nominee	Nominated (2007–2013)	# Landed (as of April 30, 2014)		Application Fees
					Principal Applicants	Eligible Family Members	
International student seeking employment with an employer (2007)	Yes	Job position must be skilled, permanent, full-time and provide an entry-level wage. One-year renewable contracts are considered on a case-by-case basis. Employer must have at least $1 million in gross revenue and employ five full-time permanent employees if located in the GTA, or $500,000 in gross revenue and employ three full-time permanent employees if located elsewhere in the province.	International student must have an eligible degree or diploma from a publicly funded Canadian university or college. Eligible within two years of graduation or if enrolled in last semester of studies.	600	530	113	$1,500
International student with PhD (2010)	No		Must have graduated from an Ontario publicly funded university with a PhD.	107	49	35	$1,500
International student with master's degree (2010)	No		Student must • have graduated from an Ontario publicly funded university with a master's degree in any field of study; • demonstrate he or she meets high language proficiency in English or French; • have minimum savings (e.g., $11,086 for one person or $20,599 for a family of four); and • meet residence requirements (have lived in Ontario for one year in the last two years).	2,081	1,572	390	$1,500
Total				**5,105**	**3,867**	**3,195**	

to allow Ontario to nominate up to 5,500 potential immigrants in 2015.

As Ontario's population ages, the need for the province to attract skilled immigrants is likely to increase. A number of recent reports highlight that there is a shortage of skilled labour in Ontario. For instance, a report published by the Jobs and Prosperity Council (Council) in December 2012 noted that, despite Canada's strong education system and skilled population, there are still a number of sectors that report challenges recruiting workers with specific skill sets, especially in the skilled trades. The Council believes that increasing the number of newcomers with the skills needed by Ontario employers will be an essential element in ensuring Ontario has a talented, world-class workforce.

The Ontario Provincial Nominee Program is becoming more attractive to foreign nationals because, in February 2014, the federal government terminated both the Immigrant Investor Program for passive investors (that is, investors not actively involved in or managing the business), and the Immigrant Entrepreneur Program for experienced business people from other countries who want to own and actively manage businesses in Canada.

For a timeline of key events relating to the Program's evolution, see **Figure 2**.

Program Functions and Costs

The Ministry's Immigration Selection Branch administers the Program. As of March 31, 2014, the Branch employed 45 staff who were responsible for application processing and nominating applicants, program development and promotion, federal-provincial-territorial co-ordination, and program integrity activities to identify immigration fraud. In addition, other ministries' resources are used to assess aspects of applications under the investment component.

In the 2013/14 fiscal year, actual expenditures of the Immigration Selection Branch were $3.1 million. The Ministry estimated that an additional $600,000 was spent by the other assessing ministries and in overhead, for total program costs of $3.7 million. Program revenue, representing non-refundable application processing fees, was $3.1 million.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Citizenship, Immigration and International Trade has effective processes and systems in place for the Provincial Nominee Program to:

- ensure that only qualified applicants are nominated for permanent resident status; and
- measure whether the Program is achieving its expected outcome of nominating candidates who will be of benefit to the economic development of Ontario and have a strong likelihood of becoming economically established in Ontario.

Senior management at the Ministry reviewed and agreed to our audit objective and associated audit criteria.

We undertook fieldwork from the end of February 2014 to the end of June 2014, and followed up on some additional areas up to August 2014. Our audit work included interviews with ministry management and staff, reviews of internal program documents and application files, analysis of program data, an ethics survey completed by existing and former program staff, and research of provincial nominee programs in other jurisdictions for best practice. We also met with representatives from Citizenship and Immigration Canada in Ottawa to obtain the federal government's perspective on program design, application processing practices, and evaluation of program outcomes.

During the course of our audit, we received a number of allegations about the Program's operation and the risk that it was continuing to consider applications from individuals and organizations who were suspected to have been

Figure 2: Chronology of Key Events Relating to the Ontario Provincial Nominee Program (Program)

Source of data: Ministry of Citizenship, Immigration and International Trade

Date	Event
November 2005	Canada-Ontario Immigration Agreement (COIA), with Annex to pilot the Program, signed (expired March 31, 2010)
May 2007	Pilot Program launched with two components: employer and multinational investors
2007	Program's annual nomination limit set at 500
2009	Program's annual nomination limit increased to 1,000
February 2009	Program launched under new name, Opportunities Ontario: Provincial Nominee Program, with the following three components: employers, international students with job offer and investors
March 2010	COIA extended to March 31, 2011 and Annex to authorize the Program extended to May 24, 2011
April 2010	Program launched the PhD component
June 2010	Program launched the Master's component
March 2011	Annex to authorize the Program extended to May 24, 2012
2012	Program's annual nomination limit increased to 1,100
May 2012	Annex to authorize the Program extended to May 31, 2015
September 2012	Program established a program integrity unit to focus on quality assurance, fraud deterrence and risk management
2013	Program's annual nomination limit increased to 1,300
2014	Program's annual nomination limit increased to 2,500
February 2014	Bill 161 (Ontario Immigration Act) introduced in the Legislature
May 2014	Bill 161 dies when the Legislature is dissolved due to the 2014 election

involved with immigration fraud and/or illegal immigration-linked investment schemes. We conducted a thorough review of the allegations with assistance from the Ontario Internal Audit Division and an external adviser. In writing this report, we have included recommendations that address not only the issues raised during our value-for-money audit, but also those identified in the allegations. As well, the Ministry, after recommendations from our Office, formally referred certain case information to law enforcement in September 2014.

Summary

The Provincial Nominee Program (Program) has been growing since it began in Ontario in 2007, and is expected to continue to grow: the Ministry of Citizenship, Immigration and International Trade (Ministry), which oversees the Program, expects the federal government to allow Ontario in 2015 to nominate 5,500 potential immigrants for permanent residency. This is almost as many as Ontario was allowed to nominate in total from 2007 to 2013. In order to ensure that the Program selects only qualified individuals who can become economically established in the province, the Ministry needs to have robust, fair and transparent processes to allow it to consistently make the best nomination decisions. It also needs to track and measure how well people nominated in the past have in fact contributed to Ontario's economic development.

Immigration selection programs are inherently at high risk of immigration fraud. A weak immigration program can be targeted by unscrupulous potential immigrants and the immigration experts who represent them.

Our audit found that there is a significant risk that the Program might not always be nominating qualified individuals who can be of economic benefit to Ontario. This is because it lacks the necessary tools, including policies, procedures and training, to guide program staff to make consistent and sound selection decisions, especially in a work environment that relies heavily on temporary staff and where turnover is high. We also found that the Ministry did not share program integrity concerns with both internal staff and external parties (law enforcement and regulators) who needed to know and could act on them accordingly. Furthermore, we found that program staff had not been provided with clear guidelines on how to deal with potentially fraudulent situations, and the Program had not established anti-fraud mechanisms. The Program lacks a strong data management system and program integrity function that would help detect high-risk applications. The Program's evaluations have not been thorough and current enough to track what happens to nominees from the various program components after they are selected. Furthermore, the Ministry does not have strong monitoring procedures to ensure that nominees are indeed working in skilled occupations contributing to the economy after arrival.

In particular, we noted the following:

- **Significant weaknesses were noted in the application assessment process:** The Program does not ban questionable applicants and representatives from reapplying to the Program. (Representatives are usually immigration consultants and lawyers authorized to act on the applicant's behalf.) From 2007 to 2013, 20% of the 400 denied applicants were denied due to misrepresentation. Between January 2011 and April 2014, applications from 30 representatives were denied on the basis that they contained misleading or fraudulent information. There is nothing stopping people who have knowingly misrepresented either themselves or their clients from reapplying or representing other clients. We believe that banning those proven to have knowingly misrepresented themselves or their clients would be a prudent practice. In addition, the Program does not follow up on questionable files that were approved yet flagged for follow-up to ensure that program criteria continue to be met. Between October 2011 and November 2013, about 260 approved files were flagged for follow-up. We reviewed a sample of them and noted that only 8% had been followed up on. As of April 2014, 71% of all nominees flagged for follow-up had become landed immigrants—the Ministry has missed the opportunity to withdraw their nominations if any concerns with the nominees were to be noted.
- **There is a high risk of application fraud:** In 2013, the program integrity staff followed up on a sample of previously approved foreign worker nominees who had become landed immigrants to see if they were working in their approved position, and found that 38% of the sampled nominees were suspected to have misrepresented themselves. As well, the National Occupation Classification (NOC) categorizes occupations into five categories (0, A, B, C, and D) with NOC 0 and NOC A being highly skilled and requiring university education, and NOC D being lower-skilled and requiring no formal education. Only applicants with job offers in the three highest-skilled NOC job categories (0,A,B) are eligible for nomination. Since the Program began, 58% of job offers have been in occupations requiring a college education or apprenticeship training (NOC B), and the remaining 42% were either management positions or occupations requiring a university education(NOC 0 or A). We noted that it was often difficult to distinguish a job in the NOC B category from a job in a lower-skilled category that would not be deemed acceptable under the Program. Therefore, there was a strong risk of misrepresentation. In fact, for applicants with job offers who were found to have misrepresented themselves, 90% had job offers in NOC B positions.

- **The program integrity team was not being used to its full advantage:** The Ministry only began to establish a program integrity team in 2012, five years after the start of the Program, and it did not begin developing a program integrity framework to guide the team's work until early 2014. We also noted that concerns identified by the team through investigations and site visits were not shared internally or externally with parties who needed to know or who could act on the information. For example, in 2013, when the team found that 38% of a sample of foreign-worker nominees who had since become permanent residents were suspected to have misrepresented themselves, program management requested that the team not share lessons learned from the results of the investigations with processing staff, thereby missing an opportunity to educate them and enhance due diligence processes.
- **The Ministry delayed formally reporting information relating to potential abuse of the Program to the federal government and the proper law enforcement agencies:** After the Ministry's program integrity team recommended that case information about applicants and applications of concern be referred to outside parties for further work, the Ministry took up to 15 months to report this information to the federal government and law enforcement agencies. Furthermore, the Ministry did not provide vital personal information to them, thereby potentially delaying corrective action against individuals who have been abusing the Program.
- **The Program lacks processes to ensure transparency and avoid actual or perceived conflicts of interest:** Even though the Ministry states publicly that applications are processed on a first-come, first-served basis, certain applications are given priority and processed at least three times faster than non-prioritized files. Although there might be instances where this practice would be justified, for example, when an applicant's legal status to stay in Canada is about to lapse, we noted one situation where files submitted by a certain representative were prioritized. In this case, the representative was a former program employee. In addition, some representatives were contacting program staff directly to ask for extensions in submitting documents or to request that their clients' applications be prioritized. In contrast, at Citizenship and Immigration Canada, only a small number of people deal with representatives, and representatives can only make inquiries in writing.
- **Many program staff are temporary, and have received no written guidance or job training; turnover is high:** As of March 31, 2014, only 20% of program staff were permanent full-time ministry employees. More than half were seasonal workers (that is, full-time employees on annually recurring fixed-term contracts who work 10 months a year). The remainder comprised seconded staff from the federal government, contract staff and co-op students. Dependence on a temporary work force has contributed to high turnover as staff leave for more permanent positions elsewhere. From January 2012 to June 2014, 31 staff left the Program and 59 started with the Program. In addition, although the Program has existed since 2007, the Ministry still does not have an operating manual to guide processing staff in making consistent eligibility decisions. Moreover, at the start of our audit, none of the application-processing staff who assessed files had received any training specific to the Program. During our audit, two training courses were developed in-house and delivered to staff. However, some topics of concern to staff were not covered.
- **The Ministry used incomplete information to assess program outcomes:** A program evaluation performed in 2013 noted that Ontario's nominees earned higher wages

($58,600) than nominees in other provinces ($43,300) and the Federal Skilled Workers Program ($35,700). However, the analysis was based on 2010 income tax records, and therefore would exclude most of the nominees without job offers, because the Program only started to nominate them in 2010. Nominees without job offers are now the majority. The evaluation also did not consider nominees who did not submit a tax return because they had no income to report. In addition, in a 2013 program evaluation, the Ministry reported that a survey of landed nominees found that 98% of nominees with a job offer were currently working and living in Ontario. However, the Ministry failed to report publicly that the survey's response rate was only 45% and that the remaining nominees could not be contacted.

- **The economic impact of nominating individuals without a job offer has not been assessed:** Having a job offer is a stronger predictor of economic success than not having a job offer. Nevertheless, two-thirds of nominees in 2013 did not have a job offer—primarily individuals with a post-graduate degree from an Ontario university. This is possible through a nomination category the Ministry established in 2010 called the "Ontario graduate component," which allows international students who are graduating or who have recently graduated from an Ontario university with a PhD or a master's degree to qualify for a nomination without having a job offer. In May 2012, the federal government expressed concerns to the Ministry that a nomination component for post-graduates without job offers might diminish the quality of candidates, and questioned whether these candidates could indeed become economically established. At the time of our audit, the Ministry was not tracking whether nominees without job offers who are admitted to Ontario are eventually employed. Doing so would help the Ministry determine whether nominating people based on their having higher education alone is advisable.
- **Employers did not need to attempt to recruit locally for 76% of job offers made to nominee applicants:** The Ministry states publicly that positions being considered for approval by the Program must not adversely affect employment or training opportunities for Canadian citizens or permanent residents of Ontario. To ensure this, employers seeking approval for a job to be filled by a foreign national must show that they have made sufficient effort to recruit locals before applying to the Program. However, this requirement does not apply to employers who are expecting to hire an individual who is studying in Canada or who holds either a Post-Graduation Work Permit or Temporary Work Permit (both of which are issued by the federal government). Of the job offers made to foreign nationals through the Program, 76% were made to such individuals. Exempting employers whose prospective nominees have such work permits from making a sufficient effort to recruit locally before applying to the Program could affect employment opportunities for local citizens and permanent residents.
- **Controls over the case management system and nomination certificates need to be strengthened:** Significant data integrity issues were noted with the case management system that is used to store case decisions, applicant information and key documents. For example, all users can input decisions, change assessment status on applications and print nomination certificates. The system is also incapable of producing exception reports to ensure program integrity. We also noted that blank certificates can go missing undetected because the Ministry does not reconcile the certificate papers' inventory to ensure all certificates are accounted for. In addition, it is possible to create fictitious nomination certificates without being detected due to weak internal controls.

OVERALL MINISTRY RESPONSE

Immigration is critically important to our economic future and social fabric. Making immigration work better for Ontario and for newcomers is a top priority of the government of Ontario.

The Provincial Nominee Program (Program) is a relatively new and effective way for Ontario to select immigrants that meet the province's unique labour market needs. Expansion of the Program is a key element of Ontario's immigration strategy.

The Ministry is committed to the integrity and continued success of the Program and is taking steps to strengthen the Program. For example, the Ministry has recently worked with Citizenship and Immigration Canada and developed an information sharing arrangement. The Ministry has also provided training to staff and introduced new protocols to ensure program integrity, continued improvement and best practices. As well, the Ministry recently engaged a consultant to review the Program and provide recommendations to ensure that its operations are positioned to take on an increased number of applications annually. Furthermore, the Ministry recently also undertook a jurisdictional review of provincial nominee programs across Canada to evaluate best practices and common challenges; the review found that misrepresentations in immigration applications, especially those in the business investment category, are common to many provincial nominee programs.

The Ontario government plans to reintroduce legislation this session to strengthen Ontario's immigrant selection program and enhance program integrity. The proposed legislation will provide legal tools to better support both information-sharing arrangements and the banning of representatives, recruiters and employers who misuse the Program. The proposed legislation will also provide for administrative monetary penalties and offences.

Given the value of Canadian citizenship, all participating immigration programs are the target of fraud and abuse by unscrupulous individuals and immigration consultants. The Ministry is committed to being vigilant in ensuring the integrity of its immigration programs.

Canada and Ontario are facing a wide range of skills gaps in critical sectors. Because immigration in Canada is a shared responsibility between the federal and provincial and territorial governments, the Ministry is continuously faced with balancing the objectives of the federal government and meeting Ontario's own labour market needs.

The Ministry will continue to work closely with the federal government and all of its partners to ensure the Program continues to play a key role in building a skilled workforce and keeping Ontario globally competitive.

Detailed Audit Observations

Nomination Limits and Approval Rates

The Program Selects a Small Number of Economic Immigrants to Ontario

In 2012, the latest year for which information is available, Ontario had the highest number of new immigrants (99,000); in fact, half of Canada's new immigrants settled in the province. Ontario also had more economic class immigrants in total (49,000) than any other province or territory. However, all provinces other than Ontario had a higher proportion of their new immigrants from the economic class (rather than family class or refugees). Only half of Ontario's new immigrants were from the economic class, compared, for instance, to 87% in Saskatchewan, 78% in Manitoba, and 68% in Alberta.

The federal government establishes nomination limits for each provincial nominee program in Canada, with consideration to the economic focus of each jurisdiction. In 2012, the federal government allowed Ontario to select 1,100 nominees under the Program, or 2% of Ontario's total economic-class immigrants for that year. The nomination limit for Ontario grew to 1,300 in 2013, and 2,500 in 2014, as shown in **Figure 3**. In comparison, all provinces west of Ontario had higher nomination limits in 2013 and 2014.

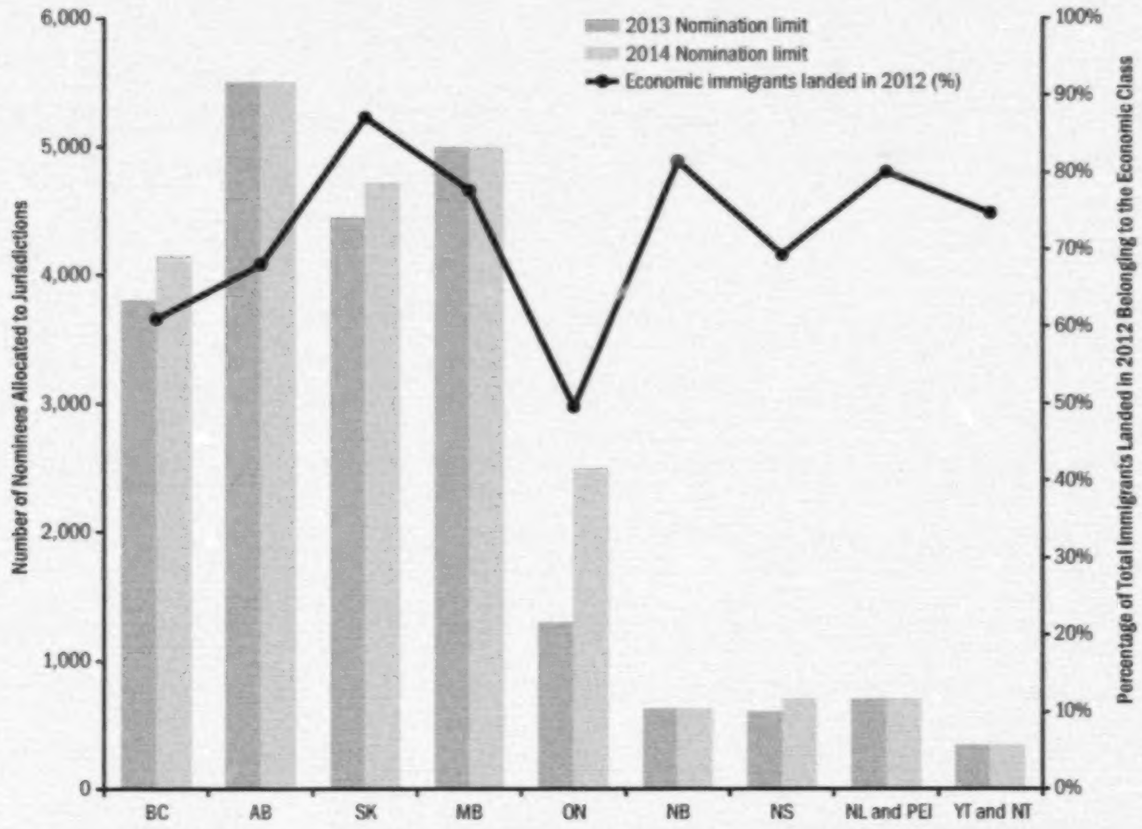
Overall Application Approval Rate is High in Ontario

The overall rate of approval for nominee applications assessed between 2007 and 2013 was 93%. Among all the nominee categories, the investor component had the lowest rate of approval, at 53%, while all other components had a rate of approval of at least 90%. The Ministry explained that concerns around the investor files have led to their low rate of approval.

The most common reason for denying applicants was that they did not meet eligibility criteria. For example, they failed to demonstrate intention to work and settle in Ontario, failed to demonstrate required prior work experience, or were participating in an "immigration-linked investment scheme," which is prohibited under federal immigration legislation. Applicants were also denied because they submitted incomplete applications or misrepresented themselves, for example, by submitting fraudulent reference letters or fictitious job offers, or

Figure 3: Nomination Limits (2013, 2014) and Proportion of Admitted Immigrants Belonging to the Economic Class (2012), by Province or Territory

Source of data: Ministry of Citizenship, Immigration and International Trade



by including other false or misleading information. Of all 400 applicants denied from 2007 to 2013, 71% were denied on eligibility criteria alone; 20% were denied because of misrepresentation alone, or misrepresentation coupled with other reasons.

Once nominated, nominees can also be denied by the federal government if they fail admissibility criteria or if the federal government chooses to overrule the province, but this rarely happens. Between 2007 and 2013, the federal government denied 58 nominees (1% of total approved nominees) who were approved by the province. In contrast, federal officials told us that they refuse about 3% of provincial nominees across the country.

Impact of the Current Program Design

Majority of Nominees Selected Had a Post-graduate Degree and No Job Offer, and Their Economic Impact Was Not Assessed

In 2013, two-thirds of nominees did not have a job offer. This appears contrary to the intent of the Program, which is to select individuals who are likely to be an economic benefit to the province. The nominees without a job offer were primarily individuals with a master's or PhD degree from an Ontario university. As **Figure 4** shows, since the Program was changed in 2010 to allow master's and PhD graduates without a job offer to be nominated, the proportion of selected nominees that do not have a job offer has grown significantly. Indeed, since 2012, nominees without a job offer have surpassed nominees with a job offer. The Ministry has not established what proportion of nominees should come from each component because it wants flexibility in order to be able to meet its annual nomination limit.

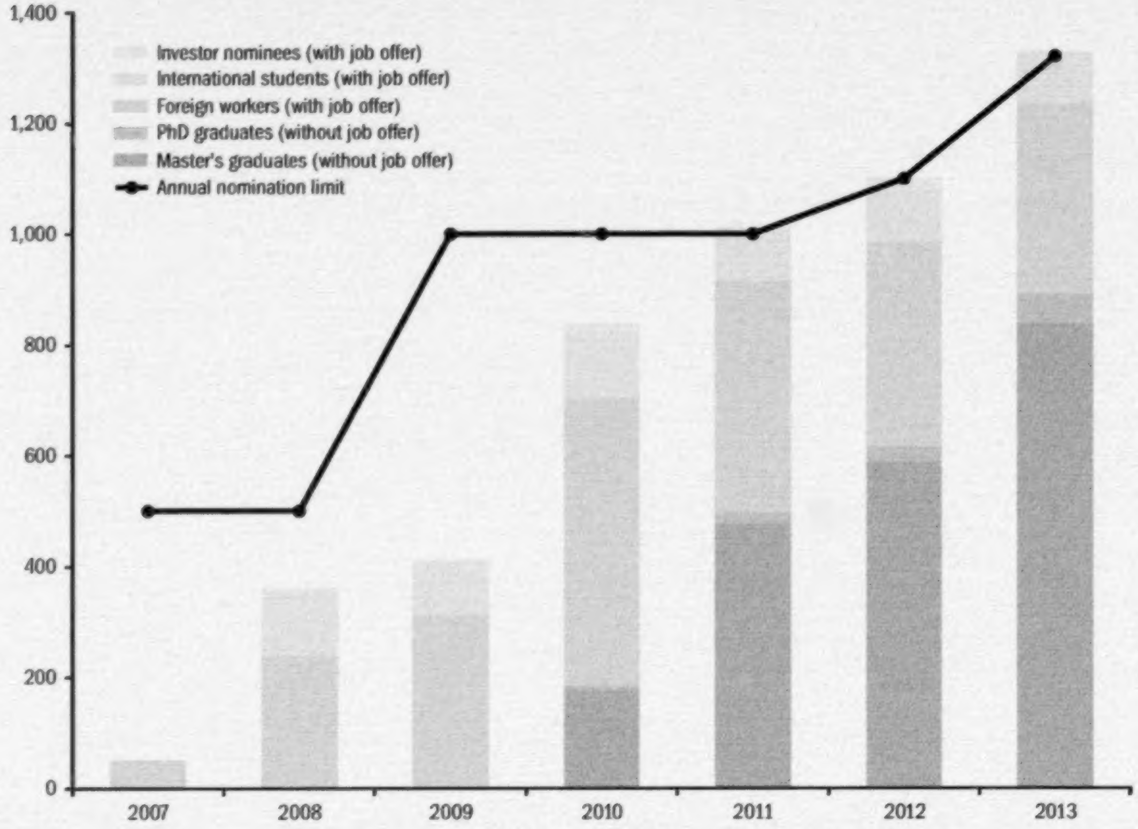
In May 2012, the federal government expressed concerns to the Ministry that the program component of post-graduates without job offers might diminish the quality of candidates, and questioned if these candidates could become economically established. The federal government informed us that of the various predictors of economic success (for example, language skills, education and previous Canadian work experience), having a job offer is a strong one because it enables school-to-work transition, and it would be expected that a Program whose goal is to meet immediate local labour needs would therefore require nominees to have a job offer.

The Ministry considers international post-graduates from Ontario universities particularly attractive because they have transferable skills, are marketable, have established roots and social networks in the province, speak the language, have education credentials that are recognized by Ontario employers, and are well-positioned to contribute to Ontario's future growth as the province moves into a knowledge-based economy. Because of the overall desirability of these post-graduates, the Ministry has not specified that only those who have studied in specific fields are eligible under the Program.

Ontario is not unique in having program components for people without a job offer. At the time of our audit, we noted that Alberta and Manitoba also nominate certain skilled individuals without a job offer. For instance, in Alberta, individuals with a valid certificate in a designated trade and those who have local work experience in an eligible engineering occupation can apply without a job offer. In Manitoba, individuals who can demonstrate a strong connection to the province through family or friends or past education or employment and meet language, education, work experience and adaptability criteria, can apply without a job offer. Also, some federal immigration programs, such as the Federal Skilled Workers Program and the Canadian Experience Class Program, allow individuals with certain education and work experience to be chosen as permanent residents without a job offer. At the time of our audit, the Ministry informed us that it was considering adding yet another component that did not require a job offer: francophone foreign workers.

Figure 4: Total Number of Nominees by Nomination Category and Approved Nomination Limits, 2007–2013

Source of data: Ministry of Citizenship, Immigration and International Trade



Notwithstanding, we noted the following regarding the Program's component of international graduate students without job offers:

- The Ministry has not adequately monitored whether nominees without job offers admitted to Ontario are eventually employed. Doing so could demonstrate whether nominating people who do not have job offers but have post-graduate degrees results in positive economic outcomes. The Ministry had administered surveys in 2010 and 2013 to measure outcomes, but the surveys did not cover a large enough sample from this program component (less than 5% of all nominees without job offers responded to the survey). Of those few who did respond, 87% reported that they were employed, and 86% reported that they worked in an occupation at least somewhat related to their studies.
- In 2010, Cabinet instructed the Ministry to introduce the master's stream only after an evaluation was completed on the PhD stream. However, the master's stream was introduced just two months after the PhD stream without an evaluation of the latter. The Ministry stated that introducing the master's stream was a ministerial direction, but could not produce formal authorization.

Many Nominees' Job Offers Were for Occupations Requiring a College Education or Apprenticeship Training

From 2007 to 2013, of all nominees who had job offers, 58% were in occupations that require a college education or apprenticeship training (see **Figure 5**). The top five occupations of nominees were all in this category: bricklayers, carpenters, machinist and machining and tooling inspectors, cooks, and roofers. The remaining 42% were in occupations requiring higher-level education: 14% in management positions and 28% in occupations requiring a university education. For applicants applying on the basis of a job offer, the Program requires the job to be full-time and in a highly-skilled occupation, which is defined as a job that is classified by the National Occupational Classification (NOC) system as being in:

- level 0—management occupation;
- level A—occupation requiring a university education; or
- level B—occupation requiring a college education or apprenticeship training.

The Program does not accept applicants with job offers in levels C and D occupations: those that require up to a secondary school education and/or occupation-specific training, and occupations providing on-the-job training, respectively. We noted that the Program correctly did not approve any applicants who indicated a lower-than-required occupation level in their applications.

We also noted that of the 90 known applicants with a job offer who had misrepresented themselves from the start of the Program to April 30, 2014, most were applicants with job offers in the NOC B category. Distinguishing a NOC B job position from one in a lower-skilled category is not an exact science. For example, according to a federal government website that describes positions by level, a cook, which is a NOC B position, is someone who would prepare and cook complete meals and oversee kitchen operations. On the other hand, a kitchen helper, which is a NOC D position, is described as someone who would take customers' orders, clean and slice food, use the oven, and serve customers at counters or buffet tables. These job descriptions can sometimes be quite similar, and because they are publicly available on the Internet, applicants can intentionally exaggerate the job description to have it fit well within an approved job category.

Figure 5: Occupation Type for Nominees with Job Offers, 2007–2013 (%)

Source of data: Ministry of Citizenship, Immigration and International Trade

Year	NOC 0[1]	NOC A[2]	NOC B[3]
2007	0	16	84
2008	5	26	69
2009	7	23	70
2010	14	22	64
2011	18	37	45
2012	21	34	45
2013	17	27	56
Total	**14**	**28**	**58**

1. Management positions.
2. Occupations requiring a university education.
3. Occupations requiring a college education or apprenticeship training.

Unclear Whether the Program is Helping Meet Regional Labour Needs

It is unclear whether the Program is actually meeting regional labour needs because regional labour data is not available to the Ministry, and the Program is nominating foreign nationals for occupations that the government knows have below-average prospects of employment. Several recent studies also illustrate these points:

- A June 2013 report released by the Conference Board of Canada noted that Ontario faced skills gaps rather than a labour shortage. The report noted that these skills gaps are found in some of the province's most important economic sectors (including manufacturing; health care; professional, scientific, and technical services; and financial industries), and that they exist in many communities across Ontario. But employers no longer invest in training and development as much as they used to. In fact, the Conference Board of Canada noted that direct learning-and-development expenditures had fallen by almost 40% between 1993 and 2013. Ministry staff told us that the fact that employers demand skills right away but do not always have the budget to train local Ontarians makes immigration an alternative option.

- An April 2014 report released by the C.D. Howe Institute on temporary foreign workers in Canada noted that there is no data on vacancies by occupation or skill level. As well, the Auditor General of Canada noted in his Spring 2014 report that Statistics Canada had limited data on job vacancies for small geographic areas, rendering it impossible to determine where in a province or territory those jobs vacancies are located. In fact, the 2012 *Report of the Commission on the Reform of Ontario's Public Services* (Drummond Report) recommended that Ontario should advocate for the collection of sub-provincial (regional) data to enable more effective decision making and policy development. At the time of our audit, the Ministry of Citizenship, Immigration and International Trade and the Ministry of Training, Colleges and Universities both confirmed that they do not have regional information on labour force supply and skills demand.
- The Ministry of Training, Colleges and Universities periodically compiles employment prospect ratings for various jobs in Ontario. It identifies those occupations in which it will be difficult for recent graduates and new immigrants to find work relative to other occupations. In 2009, the Ministry of Training, Colleges and Universities estimated that about 30 jobs had below-average prospects for employment extending into 2013. Yet we found that between 2009 and 2013, 115 nominees were approved to immigrate to Canada to work in such positions. Even though employers had made job offers in these cases, these positions may not be long-lasting, and the nominees could find themselves having difficulty moving to another occupation should they be terminated.

Employers Not Required to Prove They Could Not Recruit Locally in Most Cases

Although the Program's website states that positions being considered for approval by the Program must not adversely affect employment or training opportunities for Canadian citizens or permanent residents of Ontario, employers were not required to provide proof that they had tried to recruit locally for 76% of approved positions from 2009 to 2013 (period for which data was available).

The application form to obtain approval for a position for a foreign national specifies that employers need to prove to the satisfaction of the Program that they have made sufficient efforts to recruit Canadian citizens or permanent residents located in Ontario to fill the position. But this requirement does not apply to an employer if the individual being brought forward for nomination holds a Temporary Work Permit or a Post-Graduation Work Permit, or if the individual is studying in Canada.

The federal government requires employers to conduct a labour market impact assessment prior to issuing a Temporary Work Permit to show that there is no Canadian worker available to do the job. This assessment requires employers to provide proof that they have advertised in acceptable media for a defined period of time. But this assessment remains valid for up to four years, during which time labour market conditions could change significantly. Allowing these employers with applicants holding this permit to be exempt from demonstrating to the Program that they have attempted to recruit locally could affect employment opportunities for local citizens and permanent residents.

Ontario is not unique in allowing this—British Columbia and Alberta have a similar policy. According to the Ministry, employers who have invested four years in training a temporary foreign worker would want the opportunity to retain people with Canadian experience.

The federal government does not require employers to conduct a labour market impact assessment prior to issuing a Post-Graduate Work

Permit or when employers are bringing forward individuals studying in Canada, so the Ministry has little reason to exempt employers from making efforts to recruit locally in these cases. According to the Ministry, however, this exemption is justified because Canada would want to retain individuals who have received education here.

RECOMMENDATION 1

To ensure that the Provincial Nominee Program is achieving its expected outcome of nominating candidates who will be of benefit to the economic development of Ontario and have a strong likelihood of becoming economically established in Ontario, the Ministry of Citizenship, Immigration and International Trade should:

- establish limits for the proportion of nominees who can be accepted without job offers;
- better scrutinize applicants applying for jobs classified as NOC B for misrepresenting work experience, and job offers that are in fact in lower-skilled categories;
- obtain labour force data by region and occupation, and utilize labour market information from the Ministry of Training, Colleges and Universities regarding occupations with better prospects for employment to prioritize positions for approval; and
- define acceptable forms of local recruitment effort, and require employers hiring international students to prove attempts to recruit Canadian citizens or permanent residents located in Ontario.

MINISTRY RESPONSE

The Ministry will assess and consider establishing limits for the proportion of nominees who can be accepted without job offers, in conjunction with research findings, evaluations and analysis of outcomes data. But the Ministry will need to retain its emphasis on attracting immigrants with high human capital—this is the method of selection that was used for most economic immigration in Canada in the 1990s and the 2000s.

In September 2014, the Ministry engaged a consultant to review all program components and develop a risk assessment tool that will be implemented in early 2015. Program staff will use this tool to determine which applications should be subject to additional checks and investigation.

The Ministry acknowledges the challenges with the National Occupational Classification (NOC) system, especially the NOC B category of occupations. The Ministry will work with the federal government to review the broad band of jobs within this category and will consider refinement of program criteria based on an analysis of actual economic outcomes. In addition, program staff are expected to review all applications to ensure job specifications accurately reflect the formal job offer for an applicant. The Ministry will reinforce this practice with all staff through training sessions in early 2015, regular training updates and operational bulletins.

There are significant inherent challenges with respect to the reliability and robustness of local labour market information, and forecasts of such information, that limit the scope for meaningful occupation-level demand-and-supply forecasting. These limits must be taken into account when considering policy and program use of labour market information tools. The Program has not undertaken a ranking of desirable occupations to inform its selection decision. There remain ongoing debates about labour market imbalances, and Canada and the provinces do not agree about the nature and extent of imbalances at the national, provincial and local level. Improved labour market information could help policy-makers move past disagreements. Notwithstanding the potential value of such forecasts, a number of experts have warned about the inherent risks in occupational forecasting, which are particularly relevant at the local level.

The Ministry is developing a policy regarding acceptable recruitment efforts that should be undertaken by employers to ensure that the recruitment of Canadian citizens or permanent residents is not affected when employment offers are to be made to international students. Information on acceptable forms of local recruitment will be defined in the operational manual and made available publicly.

Processing Environment

Unstable Staffing Model

As **Figure 6** shows, the Program is heavily staffed with temporary or short-term employees. This has contributed to increased turnover and the risk of inconsistent decision-making, which in turn requires increased oversight and continual training.

When the Program began, it was approved to hire up to nine full-time positions or the equivalent (FTEs). At that time, the nomination limit was 500. In 2014, approved staffing increased to 16 FTEs when the nomination limit reached 2,500. (At the time of our audit, the Program was only utilizing nine of the 16 FTEs.) In order to meet staffing needs, the Ministry redeployed its staff from other programs and staff from one other ministry. In addition, in 2010, the Program began seconding people from the federal government, and in 2012, it began to hire seasonal employees (that is, full-time employees on annually recurring fixed-term contracts, who work 10 months a year). These temporary staff are not included in the approved staffing complement of 16, but the Ministry has obtained funding to cover the costs of the temporary work force.

As of March 31, 2014, the Program had 45 staff in total, as shown in **Figure 6.** The Program expects to continue to employ a mix of permanent and seasonal staff, but dependence on a temporary work force could result in more turnover because staff might leave, as has happened, for more permanent positions elsewhere. From January 2012 to June 2014, 31 staff left the Program. In the same period, 59 individuals started with the Program, excluding returning seasonal staff. This instability created a risk to the Program of inconsistency in decision-making, which warrants increased oversight and constant training of staff.

No Operating Manual for the First Seven Years

Even though the Program has been in existence since 2007, at the time of our audit the Ministry still did not have an operating manual to guide processing staff in making consistent eligibility decisions. Program staff received guidance primarily through coaching from senior processing staff. Although the Ministry developed an operating manual in 2011, it was never implemented and no parts of it were made available to processing staff. It covered a range of topics that, in our view, would have helped ensure that staff understand how to process files consistently and effectively. Although templates were made available to processing staff,

Figure 6: Breakdown of Program Staff by Employment Type and Function as of March 31, 2014

Source of data: Ministry of Citizenship, Immigration and International Trade

	Full-time	Seasonal*	Secondment	Contract	Co-op Students	Total
Senior Management	3	0	0	0	0	**3**
Program Development	3	2	0	2	1	**8**
Program Integrity	0	2	2	0	0	**4**
Application Processing	3	19	3	0	0	**25**
Others	0	2	0	2	1	**5**
Total	**9**	**25**	**5**	**4**	**2**	**45**

* A seasonal worker is defined as a full-time employee on an annually recurring fixed-term contract who works 10 months in the year.

they were not as comprehensive as the checklists included in the 2011 operating manual, which could have helped processing staff assess whether certain documents were acceptable as proof. We were informed that the manual was validated by processing staff at the time it was developed, but program management did not like the manual and felt it was unusable. In February 2014, when our audit began, the Ministry began developing a new procedural manual. Our review indicated that the new 2014 manual is substantially based on the contents of the unreleased 2011 manual. At the completion of our audit, the new manual was being approved by the Ministry.

No Program-specific Staff Training for the First Seven Years

There are three types of processing staff: those who provide administrative support, those who assess files and recommend approval or denial, and those who make final decisions. Prior to the start of our audit, application processing staff who assessed files were trained through job shadowing. Although staff received some formal training from Citizenship and Immigration Canada on the federal immigration legislation, there was no formal training provided on areas specific to the Program, such as program criteria, fraud detection and use of the case-management information system. During our audit, in April 2014, two staff with training expertise delivered a one-week training course to processing staff that covered these program-specific topics. In addition, one of the trainers delivered a three-day course on interviewing techniques.

All processing staff who have authority to make recommendations on applications attended both training courses in April 2014. But none of the staff who have authority to actually make decisions on applications attended either session because the Ministry felt that they were experienced. These staff could have contributed to the discussion among processing staff and ensured a consistent treatment of application processing.

The one-week training course was prepared without input from processing staff. As a result, some topics that were of concern to them were not covered in the training, such as how to evaluate whether the efforts of employers to recruit local Ontarians prior to hiring prospective nominees were sufficient.

Program Staff Do Not Undergo Security Clearance Checks

Program staff do not undergo security clearance checks. Government policy states that security clearance checks should be conducted if staff have access to sensitive information. Although program staff handle sensitive information relating to potential immigrants, at the time of our audit they were not required to undergo security checks. In contrast, immigration employees in the federal government are required to undergo such clearance checks. In June 2014, the Ministry completed, for some positions, the standard risk assessment template used to determine if staff need security clearance. Based on the Ministry's assessment, some of its program staff require enhanced screening checks, but at the completion of our audit, security clearance had not yet been conducted.

Some Staff Perceive Ethical Lapses in the Program

Ethics are particularly important in programs such as immigration selection, where the inherent risk of fraud is high. Representatives from the Ministry's human resources department told us that new staff receive orientation on conflict of interest, but aside from government-wide policies surrounding ethics and conflicts of interest, the Program is not subject to any more stringent requirements. Guidance on how to disclose and investigate wrongdoing in the Ontario public service is outlined in the *Public Service of Ontario Act, 2006*.

During our audit, we became aware that some representatives were contacting program staff directly to ask for extensions in submitting required documents or to request that their clients' applications be prioritized. Some staff perceived favouritism towards prior employees who were involved in submitting nomination applications on behalf of applicants. In contrast, Citizenship and Immigration Canada told us that only a small number of people are allowed to deal with representatives, and representatives cannot inquire in person or by phone but must correspond with the immigration programs in writing. This promotes transparency, helps ensure an arm's-length relationship between representatives and program staff, and avoids actual or perceived conflicts of interest.

Our concerns about the Program led us to conduct a survey of existing program staff and former staff who had left within the previous year to gauge their experiences and perceptions of the ethical environment in their workplace. The response rate to our survey was 88%. All of the staff surveyed agreed that ethics and integrity are critical in the public sector and an important part of fulfilling their work as a public servant. Over one-third (35%) indicated that the type of work done in their workplace is at high risk for misconduct or fraudulent activity involving program staff. Other notable responses include:

- 39% indicated that they had not been provided adequate training to know what to do if a co-worker or direct report approached them with an ethical dilemma or conflict-of-interest situation.
- 30% indicated that management did not demonstrate the importance of integrity and did not lead by example in ethical behaviour; 24% did not feel comfortable talking to their supervisor/manager about ethical issues that arose within their work environment. Furthermore, 27% did not believe that management would take appropriate corrective action if instances of ethical misconduct were reported to them.
- 24% did not know to whom they should report incidents of ethical misconduct or suspected fraud involving program staff, and 22% were unsure.
- 19% observed or were personally aware of at least one type of ethical lapse or fraudulent activity involving program staff within their workplace in the past year, and a further 19% were unsure. The top three reasons for not reporting an ethical lapse or fraudulent activity were that they did not feel it would be appropriately dealt with (55%), they were afraid of reprisals (45%), and they were not sure to whom to report it (45%).
- 24% did not believe that the current policies and practices with respect to values and ethics were working effectively in creating an ethical environment within the Program.

RECOMMENDATION 2

To ensure that the Provincial Nominee Program operates with the necessary resources and tools in a strong ethical environment, the Ministry of Citizenship, Immigration and International Trade should:

- assess its staffing needs and review the appropriateness of the current staffing model;
- implement an operating manual and update it periodically with input from program staff;
- enhance the training plan for all program staff, considering their training needs, including training on ethical matters and management expectations;
- require that program staff obtain security clearance; and
- strengthen procedures that support the maintenance of an ethical environment within the Program that respect the provisions in the *Public Service of Ontario Act, 2006* for preventing conflicts of interest and disclosing wrongdoing.

MINISTRY RESPONSE

In September 2014, the Ministry engaged a consultant to conduct a review of the organization and provide advice on a proposed future organizational structure for the Program. The engagement includes a review of the staffing needs and the current staffing model. The Ministry expects that the Program's staffing needs will change significantly over the next 12 months, due to (i) the expected reintroduction of immigration legislation that will include provisions for enforcement activity and information-sharing, (ii) the launch of Express Entry (a new model of selecting nominees) in January 2015, and (iii) the streamlining and integration of investment-component work processes.

In June 2014, the Ministry released a draft operating manual for use by staff as a resource tool. The manual is currently being revised after receiving input from internal and external partners. The manual is also under review by a consultant who is providing advice and tools for the investment component. Once these reviews and revisions are completed, the Ministry expects to regularly update the manual through operational bulletins.

The Ministry strongly believes in staff training. The Ministry will be formalizing the current mentoring and job coaching structure for senior and junior processing officers. It will also supplement and enhance existing training programs with an annual training plan and schedule for all program staff. The Ministry intends to update the training that it delivered in April 2014 to processing staff who assess and make recommendations on applications, and develop a training program for staff who provide administrative support. All processing staff will be trained in their respective training programs in early 2015. Staff who make final nomination decisions will be involved in the training initiatives. The Ministry plans to develop training opportunities through participation in an Ontario inter-ministerial working group for investigators and inspectors. Finally, the Ministry plans to create in-house training capacity.

In addition, the consultant is expected to make recommendations on a training strategy for existing and new staff. The training strategy will reinforce and integrate training on the government's ethical framework.

The Ministry places a high priority on program integrity and ethical practices. The Ministry has completed a security clearance risk assessment of all positions in the Program and is proceeding per the requirements of the government policy on employment screening checks to implement checks for its workforce.

To strengthen conflict-of-interest provisions, the Program will (i) include conflict-of-interest requirements in offer letters and performance contracts, (ii) incorporate conflict-of-interest education into staff orientation upon hire, and (iii) require annual e-course training on conflict of interest. The Ministry will evaluate these measures over the next year to determine if any supplemental conflict-of-interest or Code of Conduct tools are needed.

Application Assessment and Processing

Deficient Application Assessment Process

Our audit identified weaknesses in the file assessment process for nominee applicants with and without job offers, and for employers applying to have positions approved to be filled by potential immigrants.

The Ministry informed us that the normal process to confirm the legitimacy of applicant information should be to conduct interviews and site visits (starting in 2012), verify documents primarily by researching the Internet, and seek further documentation and clarification from applicants.

We reviewed a sample of application files processed in 2013 to determine how processing staff assessed whether eligibility criteria were met and whether case notes contain sufficient details to support nomination decisions. We noted that for the majority of the files we sampled, there was evidence that program staff had documented the assessment of all eligibility criteria, and had verified the existence of foreign workers' prior work experience to ensure it met program requirements. However, we noted the following weaknesses with respect to the assessment process:

- Processing staff do not always verify submitted information through means such as phone interviews and site visits. Conducting interviews or site visits for all files might not always be necessary, but because the Ministry does not have a process that identifies high-risk files that are susceptible to fraud, staff lack guidance regarding when to perform such verification procedures.

  Although there is no means of tracking which files involved personal interviews, one staff member could only recall a total of eight in-person interviews conducted between August 2013 and May 2014. These all resulted in the applicants being denied, which highlights the value of conducting more in-person interviews. For the eight cases noted, staff requested in-person interviews because the position did not appear to make sense for the applicant, or staff suspected there was fraud or misrepresentation. Ministry staff could also conduct phone interviews. We noted that only 11% of approved files sampled had evidence of phone interviews. Between January 2012 and April 2014, only 66 site visits were conducted. These site visits were primarily of employers but also of some investment project sites. About 40% were done as part of due diligence during the file assessment process, and about 60% were done to follow up on previously approved applicants. No site visits were conducted before the program integrity unit was established in 2012. And no site visits were conducted from April 2014 to June 2014 because the staff who typically conducted them had left the Program.
- In about 10% of the nominee applications we sampled, the copy of the passport photograph submitted with the application was too blurry or unclear to be useful at a later date if needed to confirm the identity of a nominee being followed up on. Ontario allows applicants to submit photocopies or scanned copies of passport pages. This is also the practice in Manitoba, Alberta and Saskatchewan. On the other hand, Canada and British Columbia require that actual photographs be submitted.
- In 85% of applications we sampled, we saw no evidence that the processing officers checked whether the applicant had previously applied to the Program and had been denied. Such checks would have been an important step in ensuring that processing staff exercise more due diligence. This is especially important in an environment with high staff turnover and incidents of application fraud.
- The Program requires applicants to provide a translation of documents that are not in either English or French. The translator is required to declare before a person taking an affidavit that he or she has made a true and correct translation of the submitted documents. However, unlike Alberta and Saskatchewan, Ontario does not require that the translator be a member of a recognized professional association and does not specify that the translator must not be, or work for, the paid representative (for example, immigration consultant) of the applicant. We noted examples where applicants' documents were translated by individuals working in the same firm as the paid representative.
- The Program does not assess related nominee applications (for example, those with job offers from the same employer) by the same staff and at the same time. Instead, these applications are distributed to available processing staff on a first-come, first-served basis. If related applications were assessed by the same processing staff, the Program might be able to identify trends quicker and exercise an appropriate level of scrutiny sooner once it detects a questionable application.
- In some cases where the eligibility criteria are not fully met, the Program might still approve

the application through a special consideration process, whereby the manager approves the file based on his or her discretion. The Ministry told us that this occurs, for example, when the salary rate for the applicant deviates slightly from the salary rate specified for the position or when a graduate student nominee has been living in Ontario for 11 months instead of the required 12 months. However, there is no mention in the draft operational manual of when special consideration can be given. The Program did not have statistics on how often this occurs.

Employer Applications

For employers applying to have positions approved to be filled by potential immigrants, we identified the following problems:

- Although program staff are required to check with the Ministry of Labour that the employer is not in violation of Ministry of Labour health and safety regulations, we noted that about 20% of employer applications processed in 2013 were approved without such verification. As well, by law, companies in the construction industry must register with the Workplace Safety and Insurance Board if they meet certain criteria. Many nominees with job offers are employed in this sector, but the Program does not verify that employers have insurance coverage to protect prospective nominees.
- The Program does not define what constitutes sufficient local recruitment effort by an employer applicant, resulting in varying degrees of recruitment efforts by employers being deemed acceptable. Where employers are required to submit information about their local recruitment efforts to demonstrate that they are unable to fill the requested position with local people, such information could include jobs advertised on company websites; online classified ads or employment sites; print media; or the federal government's Job Bank (an online database of job postings).

  Processing staff told us that it is unclear what constitutes sufficient effort. In particular, the Program does not specify the length of time a job should be advertised. We reviewed a sample of approved positions, and noted that a variety of methods were used to advertise job openings for varying lengths of time. For example, for similar jobs in construction in the Greater Toronto Area, one employer advertised the position on a classifieds website for 45 days, whereas another employer placed a print ad in a local newspaper with no evidence as to the length of time the job was advertised. Both were accepted as evidence of local recruitment efforts. In contrast, for temporary foreign workers in higher-skilled positions, the federal government requires employers to advertise jobs for a minimum of four weeks on the national Job Bank plus two other specified methods, such as advertising in print media, general employment websites, and/or specialized websites dedicated to specific occupations.

International Students with a Job Offer

For international students with a job offer, ministry staff are not applying the job-related criteria consistently. For international students to be considered eligible to become nominated for permanent residency, their job offers do not have to be permanent and full-time; they may be one-year renewable contracts. Although the Ministry publicly states that such renewable contracts will be considered on a case-by-case basis, we noted that processing staff do not have guidance on what constitutes an acceptable renewable job offer. One staff member we spoke with considered all such contracts as acceptable job offers, requiring no discernment on a case-by-case basis.

Nominee Applicants with a Post-graduate Degree

For nominee applicants who have a post-graduate degree (master's or PhD) from an Ontario university and no job offer, we identified the following weaknesses from a sample of applications processed in 2013:

- In order to determine if the applicant resided in Ontario for the required period of time, the Program typically obtains all passport pages to calculate the net period the applicant was in Ontario. For 22% of applications sampled, we noted that either the passport pages were illegible or some pages were missing. Thus the Program would not be able to determine if the applicant resided in Ontario for the required period of time.
- In 7% of cases, program staff considered a statement from the applicant that he or she had friends in Ontario as adequate proof of the applicant's intent to stay in Ontario.
- Although those with either a master's degree or PhD can apply to the Program without a job offer, only those with a master's degree must meet asset requirements. This is to ensure that an individual with a master's and no job offer can afford to live in Ontario while transitioning to gainful employment. The Program accepts funds received from family as evidence that the individual has the means to be self-supporting even though it cannot hold the family accountable to continue providing financial support after the individual settles in Ontario. Furthermore, the Program does not specifically consider the individual's student debt load, which might be significant. This is because the Ministry expects the individual's own funds to be sufficient to cover all expenses including paying down any debt until the graduate finds a job. For 17% of approved files sampled, we did not see evidence that the applicant had adequate financial resources. Individuals with a PhD are exempt from asset requirements because it is assumed they have earned sufficient funds through sources such as being a teaching assistant while they earned their degrees.

RECOMMENDATION 3

To ensure that only qualified individuals are nominated and to detect misrepresentation, the Ministry of Citizenship, Immigration and International Trade should:

- define when site visits or in-person interviews are warranted, and track the use of these techniques;
- require that nominee applicants submit clear photographs;
- verify applicants' history of applying to the Program;
- only permit translated documents from persons independent from the applicants or their representatives;
- assign nominee applications from the same employer to the same processing staff;
- clarify for staff what constitutes sufficient evidence to confirm that eligibility requirements have been met, and monitor that staff apply the rules consistently;
- define the circumstances under which special consideration can be given and track how frequently it is given; and
- require all applicants without job offers to meet asset-requirement conditions.

MINISTRY RESPONSE

The Ministry is committed to improving and enhancing program processing tools and processes to ensure that qualified individuals are nominated and to detecting misrepresentation early in the process.

The Ministry is developing a risk-assessment tool that will provide recommendations on appropriate levels of due diligence based upon risk. The Ministry will refine and formalize existing processes when conducting site visits or in-person interviews. The Ministry plans to update the Program's case management information system by mid-2015 to integrate the results of site visits and in-person interviews with alerts regarding questionable employers and representatives.

The Ministry plans to require that nominee applicants submit clear photographs with their application forms, and that documents submitted with the applications are translated only by persons independent from the applicants or their representatives. The Program will initiate a new quality-assurance review in early 2015 to verify that these two requirements are being met.

In summer 2014, the Ministry began a quality-assurance exercise with Citizenship and Immigration Canada to validate nomination decisions previously made. As part of this exercise, the Ministry is confirming whether program staff verified applicants' history of applying to the Program.

As of August 2014, the Program assigns nominee applications from the same employer to the same processing staff. The Ministry will incorporate this policy in the operating manual and training programs for all staff.

Since the Program began, verification checklists have been available to assist processing staff when assessing applications. The Ministry plans to review and update these checklists to mitigate program risks and reflect any change in criteria. The Ministry will supplement the checklists with regular operational bulletins and updates, and will cover these in additional staff training in early 2015. These actions are expected to enhance consistency in the application assessment process.

Upon consultation with partners and through the reintroduction of immigration legislation, the Program will no longer be using special consideration for file decisions and will instead look to incorporate such considerations within program design through regulations.

The Ministry will review the requirements for PhD applicants to determine whether they should meet the same asset requirement conditions as those currently applicable to students with a master's degree.

Questionable Representatives and Applicants Were Not Banned From Reapplying to the Program

Although some representatives are known to have misrepresented their clients in applications to the Program, the Program has not banned them. Nor has it followed up to confirm the accuracy of applications submitted by representatives known to have misrepresented information in other applications.

We reviewed a sample of applications that were processed in 2013 that involved paid representatives. In almost all cases, processing staff verified whether the representative was in good standing with his or her regulatory body (the Law Society of Upper Canada, for immigration lawyers, or the Immigration Consultants of Canada Regulatory Council, for immigration consultants) at the time the application was being assessed, but we have the following concerns:

- The Program has a list of representatives who are of concern, such as those who have misrepresented applicants in the past. At the time of our audit, there were more than 50 representatives on this list. However, most processing staff either had not heard of the list or indicated that they did not use it because it was not official. As well, the Ministry could not tell us when the list was last updated. Of significant concern is that the Ministry has never notified the representatives' regulatory bodies of concerns related to any of their members.
- The Program has not banned any representatives, but evidence suggests that it should. For example, one immigration consulting firm has co-owners who had been found guilty of immigration fraud, professional misconduct and trafficking drugs. This firm has submitted over 100 application files since the Program began, many of which have been approved. The Program's own investigation team found several cases where it believed this representative had deliberately misled the Program. The team recommended in a March 2014

investigation report that the representative be referred to the relevant regulatory body. However, the Ministry did not do so.

We believe that the Ministry should have had a process in place to ban applicants and/or their representatives from applying to the Program. The Program's application form and application guide clearly outline the expectation for honest information disclosure by an applicant and his or her representative. Specifically, both the form and the guide clearly state the possibility of disqualification from future participation in the Program as a result of individuals providing fraudulent or misleading statements or concealment of information. Ministry staff indicated to us that the Program had the ability to ban applicants, but had not taken any action in this regard. We were also informed that a banning protocol to enable staff to ban a representative or applicant was needed, but seven years after the Program began, the Program still does not have such a protocol.

In February 2014, the Minister of Citizenship and Immigration introduced in the Legislature a bill to give the Ministry the legal authority to impose penalties on applicants who misrepresent personal information or on those who might take advantage of immigrants; and to ban a person, body or any other prescribed person or body (not defined) from making an application or providing prescribed services to the applicant for a period of up to two years. The bill was not passed before the provincial election was called in May 2014. In our view, the initiative is a positive step.

Between January 2011 and April 2014, the Program denied applications from 30 representatives on the basis that they had submitted fraudulent information on behalf of their clients. These representatives had previously represented 234 nominee applicants whom the Program had approved. We reviewed a sample of these approved files and noted that processing staff did not always verify information submitted by applicants through phone or in-person interviews or through site visits, which are the primary means the Program is supposed to use to detect misrepresentation. This raises concerns that some of the 234 nominee applications might also be fraudulent. Toward the end of our audit, the federal government and the Ministry began a quality assurance exercise, whereby certain files approved by the Program but not yet processed by the federal government for permanent residency status were selected for review. However, less than 10% of the 234 files in question were part of this exercise because many of these files, which originated as far back as 2011, had already been processed by the federal government.

Questionable Files Were Flagged but Ministry Staff Did Not Follow Up

Although the Program's processing staff used to flag for follow-up files in which they suspected something was wrong, they did not actually follow up on many of them. Prior to November 2013, the general practice was to approve some suspect files but to flag them for future monitoring in six months. These files, submitted by both nominee and employer applicants, usually met program criteria but warranted further monitoring to ensure that the criteria continued to be met after a certain period of time. The Program discontinued this practice in November 2013, opting instead for more due diligence work when the files are first assessed. In this way, staff are only to grant approval once they are confident that eligibility criteria has been and will continue to be met.

Between October 2011 and November 2013, 262 approved files were flagged for follow up. Although staff indicated that some follow-up work had been conducted, they could not tell us for which files and what the findings were because they did not have a tracking system. We reviewed a sample of flagged files and found evidence of follow-up work in only 8% of the files. As of April 2014, 71% of all nominees flagged for follow-up had become landed immigrants, so the Ministry had missed the opportunity to withdraw their nomination if concerns with the nominees were noted. Less than

6% of the files from the 262 were part of the quality assurance exercise the federal government and the Ministry had started toward the end of our audit because those of long standing had already been processed by the federal government and so were deemed outside the scope of this quality assurance exercise. In our view, it would have been worthwhile to continue this exercise.

RECOMMENDATION 4

To ensure that processing staff appropriately scrutinize applications represented by potentially unscrupulous representatives and to deter unscrupulous nominee applicants from taking advantage of the Provincial Nominee Program, the Ministry of Citizenship, Immigration and International Trade should:

- develop a process to track representatives and applicants of concern, and to alert processing staff;
- define situations where the banning of representatives and applicants is warranted, and implement necessary steps to allow banning;
- conduct a review of the 234 nominee applications that were submitted by questionable representatives; and
- conduct a review of the 262 applications that were flagged for follow-up.

MINISTRY RESPONSE

Immigration selection programs are inherently at risk of immigration fraud, so ongoing efforts to detect, deter and sanction individuals, immigration consultants and companies are required. The Program must be vigilant and constantly review, assess and update systems, protocols and tools, and share best practices.

At the end of October 2014, the Ministry introduced changes to the case-management information system that result in representatives and employers of concern being flagged for processing staff.

The implementation of a banning process requires the Ministry to balance the need for program integrity with the right to procedural fairness for those individuals who may be banned. The Ontario government plans to reintroduce immigration legislation in this session. The proposed legislation will include authority for the establishment of a banning procedure. The Ministry plans to implement a banning protocol when legislation is passed.

The Ministry will complete by early 2015 a review of the 234 nominee applications that were submitted by questionable representatives. The Ministry will also review any applications that were flagged for follow-up. As of the end of October 2014, changes were made to the case-management information system to flag cases for follow-up.

Some Applications Get Priority in Processing

Even though the Ministry states publicly that applications are processed on a first-come, first-served basis, certain applications were given priority. This includes such instances as when an applicant's legal status to stay in Canada is about to lapse, or if the employer is on a priority list. In 2013, prioritized files were processed on average at least three times faster than non-prioritized files. We noted the following problems with the prioritization process:

- The Ministry does not inform the public that some files are prioritized. In contrast, Saskatchewan and New Brunswick do notify the public that they prioritize applications applying to certain program components.
- The basis on which employers would be prioritized was unclear. The Ministry informed us that priority was given to employers, such as hospitals, universities and publicly-traded and private companies in strategic sectors (as determined by the Ministry of Economic Development, Employment and Infrastructure,

including information technology, financial services, and green economy), with which it had actively promoted the Program to increase the number of applicants. However, we noted that only 20% of entities on the priority list were ones with which the Ministry has performed such outreach. As well, over 20 companies where the Ministry had promoted the Program did not appear on the priority list.

- We noted one instance where a representative's files were processed much faster than the average time, although there was no justification for them being prioritized. In this case, a former program employee went to work as a representative in a law firm. Excluding the files that related to companies that the Program typically prioritized, the remainder of this representative's files were processed in 20 days as compared to the average processing time of 100 days for regular files.

Subsequent to our inquiries, the Ministry updated the priority list to reflect only those organizations that in its view should be prioritized; that is, employers with whom the Ministry promoted the program. As of May 2014, the updated priority list contained about 80 companies, compared to over 100 before that.

RECOMMENDATION 5

To ensure that application processing practices are fair and transparent and that nominees meet the province's economic needs, the Ministry of Citizenship, Immigration and International Trade should:

- revisit the practice of maintaining a priority list of employers;
- seek input from those ministries that oversee sectors that the government considers strategic to determine which employers are to be included on the priority list; and
- inform the public if a priority list is to be maintained.

MINISTRY RESPONSE

The Ministry will revisit the practice of maintaining a priority list of employers and develop operating policies that will be updated semi-annually.

Starting in November 2014, the Ministry will participate in the Ministers' Employer Table meetings to discuss labour market needs and priority sectors, in order to inform decisions relating to the further development and maintenance of a priority list for processing applications.

The Ministry will ensure the public is informed if a priority list is to be maintained.

Move to Single-Tiered Application Assessment Process May Be Premature

At the time of our audit, the Program was considering moving from its current two-tiered application assessment process to a single-tiered process to allow more applications to be processed without hiring more staff in an effort to meet the higher nomination limits expected for future years. However, we believe it is essential that the Program first take steps to ensure that its staff make sound decisions consistently before proceeding with this change.

At the time of our audit, all position and nominee applications were first assessed by an investigator analyst, who did not have the authority to issue a decision. A senior processing officer then reviewed the analyst's assessment and approved or denied the application and, if approved, issued a nomination certificate. We reviewed the application approval process for nominee and position applications processed in 2013 and noted 11 cases where various senior staff had ultimately approved applications that junior staff members had recommended be denied. Rationale for the eventual approval was documented in all but one case, and in our opinion, the rationale for overturning the initial denial was not reasonable in two cases.

With the intention of moving to a single-tiered approval process, the Program has sought approval to have investigator analysts added to the list of ministry staff who have the power to approve, deny or reconsider decisions. The Minister denied the request the last time the Program requested this delegation of authority in November 2013. The Ministry told us they will pursue this again, but we feel that more work needs to be done to improve the quality and consistency of decisions made by processing staff before proposing such a change. Such work includes implementing an operating manual and providing better training to program staff.

Processing of Applications Not Timely

Our audit indicates that applications are not being processed within the target times set in the Program's service standards, and that processing times reported by the Ministry might not be accurate. The Program has two service standards:

- 80% of employer and nominee applications, provided they are complete, should be processed within 90 days; and
- Investment files should be referred to assessing ministries within 15 working days of receipt.

Although applicants generally expect a reasonable turnaround time for application assessment, there is also a need to balance processing speed with time needed to conduct due diligence. Processing times are tracked manually by the Ministry because its electronic case management system does not have a field to record when a complete set of documents is received. For a sample of files, we tested the accuracy of the dates when complete documents were submitted, and noted that in about 60% of the cases, processing times were understated by between one and 14 days. In 15% of the cases, processing times were overstated. On this basis, we have concerns about the accuracy of processing times reported by the Ministry.

With respect to the first service standard, we calculated the percentage of complete applications that were processed within 90 days of receipt to be 56% in 2012 and 67% in 2013, as shown in **Figure 7**. The average number of days to process an application was 116 in 2012 and 85 in 2013. As one might expect, processing times were slightly faster for applications without a job offer than for those with a job offer.

With respect to the second service standard, between January 1, 2009, and April 30, 2014, only

Figure 7: Processing Time for All Employer and Nominee Applications, 2012 and 2013

Source of data: Ministry of Citizenship, Immigration and International Trade

	Average Processing Time (Days)		% of Applications Assessed Within 90 Days	
Type of Applications	**2012**	**2013**	**2012**	**2013**
Employer Applications	153	88	43	63
Nominee Applications				
All nominees without job offers	71	69	69	71
Masters graduates	72	69	69	71
PhD graduates	60	66	79	71
All nominees with job offers	111	112	61	63
Foreign workers	114	82	61	69
International students[1]	96	95	62	62
Investors	120	488[2]	69	3
All Applications	**116**	**85**	**56**	**67**

1. Students with a post-secondary degree or diploma who have a job offer.
2. There was a significantly higher proportion of denied files in 2013; denied applications take longer to process.

57% of investment applications were referred to assessing ministries within the targeted 15 days. On average, investment applications were referred to assessing ministries 27 working days after the Program received them, with a number of applications referred after 100 days.

As of April 30, 2014, about 30% of the 79 investment applications being assessed by other ministries were at least two years old. Both the Program and one of the assessing ministries told us that investment applications are more complex than other types of applications. At the time of our fieldwork, the Ministry had not followed up with the assessing ministries to find out why it was taking so long.

The Program plans to implement electronic filing to enable applicants to submit and track the status of their applications online. The business requirements of this initiative were finalized in November 2013 and were similar to other application-based systems that use electronic filing elsewhere in the government. The Ministry plans first to roll it out to employer applicants, followed by nominee applicants. However, the Ministry still had not launched the initiative by the end of our audit. Provincial nominees in Manitoba and Saskatchewan already use electronic filing.

Process to Reconsider Denied Applications Not Timely

Our audit indicated that appeals made by applicants after their applications have been denied are not being reassessed in a timely fashion. Employers and prospective nominees whose applications are denied can appeal the decision. In the appeals process, the Ministry assigns the file to a different officer, who determines if the program "erred" or made a "prejudicial" (unfair) decision against the applicant in applying eligibility criteria. Most other provinces also have an appeals process for their provincial nominee programs, although New Brunswick has no appeals process and denied applicants cannot reapply for two years.

We reviewed appeals originating in 2012 and 2013 and noted that 30% and 45%, respectively, of denied applicants appealed the decision. At the time of our audit, some appeals made in each of these years had not yet been reassessed (**Figure 8**). The number of applications appealed and the percentage of decisions overturned varied significantly between the two years, but program management could not provide a reason.

RECOMMENDATION 6

To ensure an efficient and effective application screening process, the Ministry of Citizenship, Immigration and International Trade should:

- delay implementation of a single-tiered application assessment process until more robust training and guidance for staff is in place and being used effectively;
- have a system that will allow it to readily track how long it takes to process an application and an appeal, and follow up in a timely manner on those that are significantly overdue;
- refer investor applications to assessing ministries for review in a timely manner, establish a standard processing time for the assessing ministries to complete their review, and follow up when assessments are significantly overdue; and

Figure 8: Status and Results of Appeals, 2012 and 2013

Source of data: Ministry of Citizenship, Immigration and International Trade

Year	# of Applications Appealed	% of Appeals Not Yet Processed as of April 2014	% of Decisions Overturned on Appeal	
			Employer Applications	**Nominee Applications**
2012	200	13	10	24
2013	92	18	2	9

- implement electronic filing for all program components as soon as possible.

MINISTRY RESPONSE

The Ministry is in the process of reviewing all aspects of its application screening system in order to ensure program integrity and enable introduction of a revised stream (the investor stream) and proposed new streams (entrepreneur and express entry). This review will look at all aspects of processing, including database systems as well as tools, guidelines and training. Work has been under way for over a year—some elements have been launched, and additional aspects will be implemented in 2015.

The Ministry plans to maintain the two-tiered processing system during the transition to a new operational manual and the implementation of new tools and procedures.

The Ministry recently updated its approach to tracking the time taken to process applications to align with the federal government's methodology. At the end of October 2014, the case-management information system was updated to alert staff of applications that have exceeded standard processing times.

The Ministry is currently undertaking a redesign of the investment component of the Program. This redesign will incorporate a one-window approach to application processing. New operational guidelines will be developed to specify the required timelines for the review and evaluation of investment applications.

The Ministry will undertake a pilot project to implement electronic filing in early 2015. Following the pilot, the Ministry will evaluate the initiative. The Ministry expects to fully implement electronic filing by summer 2015.

Investment Component Could Be Better Defined

Our audit indicated that the Ministry's efforts to increase interest in the investment component could pose increased risk, especially considering that the Program has not established prescribed criteria to be used by assessing ministries to determine whether investment projects are eligible, and ministries might lack the necessary staff expertise.

Between 2008 and 2013, the Program nominated 52 individuals (or 1% of all approved nominees) to come to Ontario to work for 10 approved investment projects, with proposed investment amounts totaling $338 million. Between 2009 and April 30, 2014,the Ministry has denied about 75% of investment projects it assessed for one or more of three reasons: they were not endorsed by the assessing Ministry, the application was incomplete, and/or eligibility criteria were not met.

Our concerns with the investment component include:

- There are no prescribed criteria to help assessing ministries determine whether an investment project will be of significant economic benefit to Ontario. This might result in subjective and inconsistent decision-making among evaluators.
- Ministries that have to make decisions on investment projects might not always have staff who are knowledgeable in evaluating the viability of an investment. A consulting firm engaged by the Ministry in 2013 recommended that the Ministry consider using the expertise of private-sector financial institutions to assess an investment's viability. Alternatively, we believe it would be more cost-effective for the Ministry to require that investment component applicants engage external experts to assess and confirm the financial viability of their investments.
- The Program is not monitoring foreign-language media outlets of ethnic groups that typically apply through this component, to

identify possible investment schemes being advertised to potential nominee applicants. We reviewed local newspapers from three ethnic communities and noted two questionable ads in one of the newspapers.

- The Program does not advertise in ethnic-language newspapers to clarify program criteria and possibly alert applicants to illegal activity. In an effort to expand eligibility and interest in the investment component, the Ministry reduced the investment threshold from $10 million to $3 million in 2009. The federal government voiced concern in 2012 regarding the investment threshold and stated that the investment component might be vulnerable to passive investment due to its design. A consulting firm engaged by the Ministry in 2013 to perform a risk assessment of the investment component made a similar observation. An increase in the investment threshold might reduce the risk of passive investment.

At the end of May 2014, the Ministry was seeking approval to transform the investment component. The redesign involves the use of a single ministry to assess and endorse investment projects. It also includes entering into an agreement with the Ministry of Economic Development, Employment and Infrastructure on roles and responsibilities related to assessing investment projects. At the time of the audit, the Ministry had not signed the agreement with that Ministry.

RECOMMENDATION 7

To ensure that all investment component applications are consistently assessed on how well they achieve program objectives, the Ministry of Citizenship, Immigration and International Trade should:

- develop screening criteria to assess whether an investment project is of significant economic benefit to Ontario;
- arrange for cost-effective expertise to assist in assessing an investment's viability;
- consider increasing the investment threshold to discourage passive investing; and
- explore advertising program criteria in media that reach ethnic groups that commonly use the Program, and monitor such media for questionable advertisements relating to the Program.

MINISTRY RESPONSE

The investment component is an important avenue for foreign and multinational investors to establish new ventures and invest in existing enterprises to Ontario.

In September 2014, the Ministry retained a consultant to assist with the redesign of the investment component assessment tools that will be launched in early 2015. The Ministry expects that the overall program redesign for the investment component will result in better screening criteria and follow-up methods, including assessments of jobs created.

The branch that previously assessed over 75% of the investment proposals is being moved from the Ministry of Economic Development, Employment and Infrastructure to the Ministry of Citizenship, Immigration and International Trade. The consultant will determine what external advice is still needed to effectively assess the viability of investment proposals.

As part of the redesign, the Ministry will also consider whether the investment threshold needs to be increased and whether that would serve to discourage passive investments.

The Ministry is engaging the International Organization of Migration (an intergovernmental organization that provides various services to immigration programs in Canada) to conduct overseas verifications in China and 15 other countries. The Ministry will also explore whether media monitoring or advertising would be helpful.

Detecting Misrepresentations and Fraud

Program Integrity Unit Operating Without Effective Tools and Guidelines

Although the Ministry took steps to establish a program integrity unit, the Program does not make best use of the unit nor of data and best practices available to bolster program integrity and counteract potential fraud.

For the first few years of the Program, staff were mostly responsible for processing applications and verifying the authenticity of documents. In September 2012, the Ministry established a program integrity unit to focus on quality assurance, fraud deterrence and risk management for the purpose of ensuring that only those individuals who meet eligibility criteria are selected for nomination. The program integrity unit has provided expertise in investigative interviewing and initiated site visits to enhance due diligence in the processing of some applications and for post-nomination quality assurance. Although this is a good initiative, we have the following concerns with its effectiveness:

- The unit operates without any operating guidelines. The Ministry began developing a program integrity framework in early 2014, seven years after the Program started. The framework is expected to fully integrate risk management, quality assurance and fraud deterrence and detection activities into the Program. At the time of our audit, the framework and the related action plan were not yet finalized.
- The Program does not analyze data to identify potential risk areas (such as representatives with high denial rates, and employers with high levels of misrepresentations) and, in turn, to scrutinize applications from these sources more closely.

Semi-annually, each provincial nominee program across the country submits a program summary to Citizenship and Immigration Canada, which compiles the information and distributes it to all the programs. To identify potential best practices regarding program integrity and anti-fraud mechanisms, we reviewed the latest compilation as of May 2014. Below are some noteworthy program activities other provinces report performing, but which are not conducted in Ontario:

- consulting with international organizations to verify an applicant's education qualifications and employment history; and
- submitting complaints about immigration representatives to the respective regulatory bodies.

We noted that in January 2013 the program integrity unit developed a screening tool designed to help processing officers make consistent decisions about whether a file should be referred to the program integrity unit for further review. The screening tool included 20 risk indicators, such as omissions or gaps in the application, the existence of contradictory source information, the use of a representative of concern, and whether the applicant had previously applied for immigration status and been refused. Program staff told us that the tool was used for a short time but was discontinued because program management felt it slowed down processing time.

Weaknesses in the Exchange of Information with Other Parties

Although sharing information with external parties, such as the federal government and law enforcement agencies, could be beneficial in detecting and addressing fraud, the Ministry does not clearly and consistently collaborate in a timely manner.

On occasion, the Ministry obtains information from external parties, such as law enforcement authorities, that would be useful to its investigative work in assessing whether applicants are qualified. There is no legal prohibition preventing the Ministry from disclosing a broad range of information to the federal government, including both Citizenship and Immigration Canada and the Canada Border Services Agency. In fact, on the nominee application form, the applicant authorizes the Ministry to disclose to federal immigration officials any information that it deems necessary, and further authorizes federal immigration officials to collect the same information from the Ministry. As well, the federal-provincial immigration agreement allows both governments to share information in the interest of managing program integrity. Furthermore, we noted that, in 2009, program staff had indicated to other provinces and territories that the Program is authorized to share information about applicants and applications with Citizenship and Immigration Canada, including information on fraud. Representatives from the federal government with whom we met indicated that the province is expected and obligated to share relevant information with the federal government. Nonetheless, we found that:

- Program staff had concerns about a number of representatives who the Ministry suspected could be taking advantage of the Program, primarily through applications into the Program's investment component. Although the Program ultimately denied these applications, it did not alert other provincial, territorial and federal immigration departments of potential representatives or their applicants who may also be approaching immigration programs in other Canadian jurisdictions.
- There is no operating policy outlining the circumstances under which program staff should refer cases to the federal government and, where warranted, to law enforcement agencies.
- The Ministry does not keep a list of requests for information from other parties or referrals of information to other parties. This limits the Program's ability to manage and follow up on cases. For instance, in one case, program staff recommended in March 2014 that case information be referred to the Canada Border Services Agency (CBSA) when an immigration consulting firm misrepresented itself and its clients to the Program. The CBSA is responsible for enforcing the federal *Immigration and Refugee Protection Act* and conducts criminal investigations on immigration matters. In another case, program staff noted that there may have been past and ongoing risk to the program's integrity when an entrepreneur was misrepresenting herself for financial gain. Specifically, the entrepreneur was alleged to have sold fabricated nomination certificates to foreign nationals for amounts ranging from $150,000 to $400,000 per certificate. In this case, program staff proposed in June 2013 to meet with the CBSA to discuss a possible future course of action. In both cases, the Ministry did not inform the CBSA; instead, it sent case information with personal information removed, to Citizenship and Immigration Canada (CIC), but not until July 2014. The Ministry expected CIC to refer the cases to the CBSA. We would have expected these cases also be referred to a law enforcement agency or agencies. After our recommendation, the Ministry formally referred these cases to the Ontario Provincial Police, with a copy to the RCMP, at the end of September 2014. However, the Ministry redacted key personal information that will make it necessary for law enforcement to seek that information from the Ministry or other sources.
- The Ministry did not act swiftly to collaborate with external parties. In one case, RCMP officers working in a foreign country requested collaboration on an investigation, but program management did not authorize this until 10 months later. By then, the key RCMP contacts had left their posts. In another case, the Ministry took six months to respond to an informant who offered possible evidence of an alleged illegal investment scheme, only to tell him that it would not accept the evidence. Although program staff discussed advising him to take the evidence to a law enforcement agency, they did not do so.

The Ministry noted that it had not been sharing information with the federal government because of concerns that doing so might contravene the *Freedom of Information and Protection of Privacy Act*. However, we did not find documented evidence that it had consulted with the Office of the Information and Privacy Commissioner of Ontario to obtain clarification in this matter. In our view, sharing information on potential fraud with the federal government and law enforcement agencies, where warranted, would be in the public's best interest. We discussed this matter with the Office of the Information and Privacy Commissioner of Ontario, and were immediately advised in both verbal and written form that "it is reasonable to conclude that an institution is permitted to disclose personal information to a law enforcement agency if there are reasons to believe that an offence has occurred for the purpose of enabling the law enforcement agency to decide whether to undertake an investigation. It is assumed that the personal information being disclosed is limited to that which is relevant and necessary for that law enforcement purpose."

In February 2014, the Minister of Citizenship and Immigration introduced in the Legislature a bill to give the Ministry the legal authority to co-operate with, and disclose information it has collected to, the federal government and law enforcement agencies, as long as the Ministry has an agreement with these parties. The bill was not passed before the provincial election was called in May 2014.

Subsequent to our fieldwork, the Ministry and Citizenship and Immigration Canada began working on an information-sharing protocol defining types of program-integrity and fraud-related information that should be shared.

RECOMMENDATION 8

To enhance the effectiveness of its program integrity unit in ensuring the quality of nomination decisions, the Ministry of Citizenship, Immigration and International Trade should:

- implement the program integrity framework and action plan, taking into consideration best practices in other jurisdictions;
- use risk indicators to identify high-risk files for further review; and
- clarify under what circumstances processing staff should refer files to the program integrity unit.

MINISTRY RESPONSE

The Ministry will finalize the program integrity framework and action plan once consultations currently under way with external advisors and federal partners are completed. The framework and action plan will help support staff and complement new legislative authorities.

The Ministry, in conjunction with a consultant, is currently developing a risk-assessment and triage tool for use by the Program. This tool, which will be introduced in 2015, will also enhance the process for staff to refer files to the program integrity unit. The formalized process will be included in the operating manual in early 2015.

RECOMMENDATION 9

To ensure that appropriate and timely action is taken regarding possible immigration fraud, the Ministry of Citizenship, Immigration and International Trade should:

- obtain an interpretation of the privacy legislation from the Office of the Information and Privacy Commissioner of Ontario to confirm what matters can be disclosed to the federal government and law enforcement agencies when instances of misrepresentation or fraud are detected or suspected; and
- file formal complaints with law enforcement agencies, including the RCMP, and any applicable regulatory bodies as soon as it has evidence of potential immigration fraud.

MINISTRY RESPONSE

In September 2014, the Ministry signed an information-sharing arrangement with Citizenship and Immigration Canada (CIC) that authorizes the disclosure of personal information by the Program to CIC. Protocols have also been established for providing information regarding potential fraudulent activities. The Ministry understands that CIC is sharing relevant information with the Canada Border Services Agency. Since the signing of the arrangement, the Ministry has forwarded a number of files to CIC that identified suspected instances of fraud.

In October 2014, the Legal Services Branch of the Ministry of Government and Consumer Services initiated a discussion with the Office of the Information and Privacy Commissioner regarding the scope of the Program's authority to disclose personal information to law enforcement agencies and the federal government under the *Freedom of Information and Protection of Privacy Act*. The parties will engage in further discussions. The Ministry already has authority to share certain types of personal information under a variety of circumstances. This authority was broadened when the Ministry and CIC entered into their information-sharing arrangement. Once the Ministry has clarified its ability to more broadly report case information to law-enforcement agencies such as the Royal Canadian Mounted Police, the Ontario Provincial Police, the Ontario Securities Commission and the Canada Border Services Agency, it will refer cases where potential immigration fraud is suspected, as appropriate. Finally, if the legislation that the government proposes is enacted, the Ministry will have additional avenues available for sharing information to support its program integrity activities.

Case Processing System

The Ministry developed a case management system (CMOD) that became operative in January 2013. It is used to store case decisions, applicant information, and key documents such as notification letters and nomination certificates. We noted the following significant data integrity issues in this system:

- The system does not restrict access to specific functions and does not lock a file when a decision is reached. As a result, all users can input decisions, change assessment status, and print nomination certificates. We further noted that four staff who had left the Program still had access rights to the system.
- The system contained incomplete or inaccurate data because information was not always entered properly or at all, thereby hampering staff efforts to analyze information. We noted examples of unreasonable or missing information with respect to case decisions, language proficiency test scores, and gross revenues submitted by employer applicants.

Also, the system is incapable of producing reports to assist the Program in ensuring program integrity. For instance, no reports exist to allow staff to identify issues such as representatives who have frequently misrepresented information. As well, the system does not produce exception reports that can identify for management which files have had changes made to them after they are closed. In addition, when the system was being implemented, the Program had defined a number of system reports it wanted on various topics, such as investment statistics and service standards, but these reports were still not being produced at the completion of our audit.

Furthermore, we noted instances where information on immigration files was emailed from the government email system to a program employee's personal email account. Such actions pose a risk of unintended disclosure of personal information.

RECOMMENDATION 10

To ensure that the Provincial Nominee Program maintains accurate and reliable program data, the Ministry of Citizenship, Immigration and International Trade should:

- implement system controls to restrict access to specific functions only to those with the authority to make decisions;
- withdraw access rights immediately when staff end employment;
- restrict changes to case decisions after they are made;
- enhance input validation checks for selected fields to ensure that only reasonable data is accepted;
- identify and implement useful exception reports that program staff have requested; and
- reinforce with staff the importance of not transmitting information on immigrant files to personal email accounts.

MINISTRY RESPONSE

In 2011, the Ministry began working to develop a secure customized database and electronic program-management tool, CMOD, which has not been fully implemented. Given the unique nature of the work and the highly sensitive data, development and implementation of this database system has been an ongoing process requiring development, user testing and evaluation at each step.

The Ministry will ensure that employees leaving the Program will have their access to CMOD revoked as part of the formal process of the employee exit plan.

The Ministry needs to allow for additions to be made to case notes and changes to be made to case decisions to accommodate future withdrawals of nomination and reconsideration requests of denied cases. Nevertheless, to ensure decisions are not changed inappropriately, the Ministry plans to upgrade the system by mid-2015 to establish an email alert notification system and a flagging process to alert those with program integrity authority of changes made to case decisions after they are reached to ensure that there has been no unauthorized or inappropriate activity.

Input validation checks are currently done manually, and the Ministry expects to automate this process in early 2015.

The Ministry further plans to introduce exception reports in a future system update.

Program management will remind staff that all information on immigrant files is confidential and should not be transmitted to personal email accounts. The Ministry will carry out regular training reminders and email bulletins to branch staff reminding them of the Acceptable Use of Information and Information Technology Resources Policy, and Information Security and Privacy Classification Policy and Operating Procedures.

Nomination Certificates

The Program issues nomination certificates to approved applicants so they can apply to the federal government for permanent residency. The applicant needs to submit the Ontario nomination certificate along with his or her application to the federal government. Each nomination certificate is randomly numbered and printed on paper with certain security features to prevent photocopying. According to the Ministry, Citizenship and Immigration Canada has never informed it of any fraudulent nomination certificates.

Controls Regarding Issuance of Certificates Need to Be Strengthened

To prevent the circulation of counterfeit nomination certificates, the Ministry submits an encrypted file to Citizenship and Immigration Canada on a monthly basis containing all issued certificates. This allows the federal government to readily detect if a certificate presented at one of its visa offices, either abroad or within Canada, is counterfeit.

However, we still have the following concerns with the Ministry's controls over its nomination certificates:

- Blank certificates could go missing with no record of it happening, because they are not locked during the day, and the Ministry does not reconcile the certificate papers' inventory to ensure that all certificates are accounted for.
- Although the case management system (CMOD) has data on all approved nominees and is used to generate the nomination certificates, it cannot produce a listing of the certificates issued for the federal government. The Ministry therefore has resorted to compiling that listing outside of the system. However, the listing is not password protected, and anyone can access and change it with no trace of this having occurred.
- Due to weak access controls in both the file containing information on approved nominees that the Program sends to the federal government and CMOD, it is possible to create fictitious nomination certificates without being detected. For example, anyone with access to CMOD can create a nominee record, generate a nomination certificate, and add a fictitious approved nominee to the listing provided to the federal government. Furthermore, because there is no exception report that flags applications created and approved by the same person, fraudulently created certificates could go undetected.
- We compared the list sent to the federal government of all approved nominees for 2013 against the case management system's records of approved nominees and noted that the Ministry issued a nomination certificate to an applicant who was actually denied. After we brought this matter to the Ministry's attention, it informed us that the applicant was notified, the nomination certificate was withdrawn, and the federal government did not issue permanent resident status. After finding this error, we also checked all such files from 2011 and 2012, but did not find any similar problems. The Ministry informed us that it is now revising its process to avoid such errors in the future. Because of the internal control weaknesses, it would be very difficult for the Ministry to know if there have been any abuses.

Nomination Withdrawal Still Resulted in Individuals Becoming Landed Immigrants

Our audit indicated that the Ministry is not always acting promptly in signing withdrawal certificates, which are used to revoke nomination certificates when it or the federal government becomes aware of situations that render the applicant no longer compliant with program criteria, such as losing a job. Once a decision is made to withdraw a nomination, the Ministry signs a withdrawal certificate (which is kept on site) and notifies the nominee in writing. It also informs the federal government by providing it with a list of withdrawn nominations once a month along with the list of approved nominees. This practice began in May 2012; prior to that, withdrawals were communicated to the federal government ad hoc by phone or email by various ministry staff. We reviewed all 46 withdrawals made in 2012 and 2013, and noted the following:

- Withdrawal certificates were not all signed promptly after a decision was made. We noted for withdrawal certificates that were signed, one-quarter were not signed until six months after the date the withdrawal decision was made. Some were signed more than 15 months later. We noted one case where an individual whose nomination had been withdrawn was allowed into Canada as a permanent resident because the federal government had not yet been notified of the withdrawn nomination.
- We could only verify that 43% of withdrawals were reported to the federal government because the Ministry does not have records of when or if the other 57% were communicated.

RECOMMENDATION 11

To ensure that nomination certificates are issued and revoked as appropriate and only approved nominees are forwarded to the federal government for further immigration screening, the Ministry of Citizenship, Immigration and International Trade should:

- **establish a functionality in its case management system to allow staff to generate a list of all approved nominees to be submitted to the federal government;**
- **strengthen internal controls, including segregating the duties of staff who generate nomination certificates from those who add new nominee application records to the case management system;**
- **notify the federal government promptly after making a decision to issue or withdraw a nomination; and**
- **maintain an accurate record of when nominations issued and withdrawn are communicated to the federal government.**

MINISTRY RESPONSE

To date, the Ministry is not aware of any known abuse of nomination certificates. The Ministry expects that by 2015, its case management system will be able to generate lists of approved nominees. The October 2014 update is expected to improve work processes by strengthening internal controls, including appropriate segregation of duties, as recommended by the Auditor General.

The Ministry will ensure that Citizenship and Immigration Canada is notified promptly of decisions to issue or withdraw nominations. The Ministry will ensure that an accurate record is maintained for the issuance and withdrawal of nominations, including the timing of communications regarding these nominations, with the federal government.

Post-nomination Monitoring and Program Evaluation

Some Nominees Who Have Become Landed Immigrants Found Not to Be Working in Their Approved Positions

In 2013, the program integrity staff followed up on a sample of previously approved foreign worker nominees who had become landed immigrants to see if they were working in their approved position. They found that 38% of the sampled nominees were suspected to have misrepresented themselves. Of those, program integrity staff suspected that:

- 50% had conspired with the employer (that is, there had been no sincere intention on either side for the applicant to work for that employer);
- 31% had either left the place of employment or never commenced employment after becoming a permanent resident; and
- 19% worked for the employer but in a position that was unrelated to the approved position and that would not normally qualify for nomination.

Program management requested that the program integrity staff not share these results with processing staff. As a result, an opportunity to educate processing staff and enhance due diligence processes was lost. This 2013 follow-up investigation was the only such exercise since the Program began in 2007.

Program management questioned the results of the follow-up. In June 2014, they had program integrity staff conduct additional work to substantiate the initial negative findings. Staff told us that they were given one week to complete this review. This resulted in some of the findings being inconclusive, but the Ministry chose not to conduct any more work, because too much time had elapsed since nomination. We reviewed the results of this June 2014 review and concluded that there was no strong evidence to cause us to question the original results.

Insufficient Monitoring of Investment Projects and Related Nominees

Our audit found that the ministries responsible for assessing investment projects were not adequately and consistently following up on projects that had been approved. Nor did the Program follow up with the assessing ministries or on the individuals who were supposed to be working in these projects.

According to a June 2011 protocol between the Program and a number of other ministries that assess the suitability of investment projects, the Program is responsible for monitoring foreign workers nominated to be key employees of an approved investment project. The assessing ministries, in turn, are to monitor if the investment project was adhering to the business plan, including creating the promised number of local jobs and investing the promised dollar amounts. Between 2008 and 2013, the Program nominated 52 individuals to come to Ontario to work for 10 approved investment projects.

We followed up on all 10 approved projects in June 2014. We found that the Program did not follow up on any of the 52 individuals to ensure that they were still working in the investment project, and did not follow up with the assessing ministries to obtain updates on the results of their monitoring efforts.

The assessing ministries informed us that they monitored nine of the 10 investment projects, but formal documentation was available for only four of them because they were endorsed after the establishment of the June 2011 protocol. One assessing ministry was unable to locate any evidence for monitoring one project because the documents pre-dated the current structure of the ministry. Of the four projects that were monitored, by two different ministries, we noted that monitoring efforts differed. One assessing ministry monitored six and 12 months after endorsement (and not thereafter), using methods that included phone calls, site visits, and requesting various information. The other assessing ministry was verifying that the investment project was active by visiting the site every month. In addition, for all four projects combined, the ministries confirmed only 56% of planned local hires and 13% of planned investment amounts. We inquired why they did not ensure that planned commitments were met, and were told that they did not consider it their role.

We noted that one assessing ministry relied on unaudited financial information and the investment operator's self-declaration that aspects of the business plan were met. This ministry typically required endorsed investment projects to submit a report at 12 months after endorsement providing information such as the status of local jobs created, a summary of how the business plan was implemented, and the number of nominees who were retained to work there. This ministry made no effort to verify the information obtained. The ministry-commissioned risk review on the investment component completed in July 2013 noted that "the Program's monitoring framework and procedures remain immature and fractured." For example, there were no processes in place to ensure that investors filled the proposed number of local jobs, and to verify through site visits an investment's activity. We noted that the provincial nominee program in British Columbia is designed to nominate entrepreneurs only after certain conditions are met, usually in two years. These conditions include implementation of a business plan, transfer of required investment funds after arrival, and submission of a final report. At the time of our audit, the Ministry was seeking ministerial approval to add a new component similar to the one in British Columbia, where eligible entrepreneurs would be given a temporary work permit to establish a business. Only if they met predefined terms and conditions at the end of a two-year period would they be nominated as permanent residents through the Program. The proposal was not yet approved at the completion of our audit.

RECOMMENDATION 12

To ensure that post-nomination monitoring efforts are effective, the Ministry of Citizenship, Immigration and International Trade should:

- **use findings from investigations regarding misrepresentation and fraud to educate processing staff and improve due-diligence processes;**
- **define the scope of monitoring that should occur after investment projects are approved;**
- **require that assessing ministries monitor at set intervals using prescribed methods (such as obtaining audited financial statements and conducting site visits) to verify information received;**
- **request copies of the results of assessing ministries' monitoring activities and follow up when they are overdue; and**
- **consider nominating investment component applicants only after they have demonstrated that they have met project commitments, as is done in British Columbia.**

MINISTRY RESPONSE

Monitoring nominee performance is an issue for all provinces. The Ministry is working with the federal government and other provinces and territories to develop common performance indicators for provincial nominees. This work, initiated by the federal government in 2011, is expected to be completed within the next six to 12 months.

The Ministry will ensure that findings from investigative work conducted by program integrity staff are disseminated to all processing staff through means such as discussion, operational bulletins and training updates.

The Ministry will redesign the investment component with advice and input from a consultant. This redesign will include a one-window approach, which involves relocating business immigration staff and expertise of the Ministry of Economic Development, Employment and Infrastructure—the largest assessing ministry for immigrant investor applications—to the Ministry of Citizenship, Immigration and International Trade. The redesign will also incorporate advice from partner ministries and will include a formal Performance Reporting Framework that will address regular reporting on jobs created, retention rates and economic benefits.

The Ministry will be conducting an extensive jurisdictional review of provincial nominee programs, including that of British Columbia, which nominates investment component applicants only after they have demonstrated they have met project commitments.

Program Unable to Track All Nominees

The federal-provincial immigration agreement states that Ontario should track nominees for a minimum of three years from their date of entry, but the Program has not done this. The rationale for such tracking is to be able to assess the effectiveness of targeted recruitment, integration and retention activities.

Since the Program began in 2007, the Ministry has conducted two surveys of nominees after they have become landed immigrants. The first survey, in 2010, covered nominees selected from May 2007 to June 2010 who had become permanent residents; its response rate was 24%. The second survey, in 2012 to 2013, covered nominees selected from July 2010 to April 2012 who had become permanent residents; its response rate was 45%. In comparison, British Columbia and Saskatchewan survey their nominees every five years. Alberta surveys landed nominees three months to one year post-landing through an online survey, and Newfoundland and Labrador contact all landed nominees by email and telephone on a quarterly basis.

We have the following concerns about the Ontario surveys:

- In the survey of nominees conducted in 2012 to 2013, 46% could not be contacted because there was no answer or they were not available, and 9% had an invalid email or phone number. This raises concerns whether the nominees were even in the province.

- In both surveys, the responses indicated that 98% of nominees with job offers were employed and living in Ontario. However, it is important to note that the surveys were self-identifying, meaning that applicants were answering questions about themselves, with no one else vouching for the information given. It is therefore possible that some of these individuals might not have been truthful out of fear of consequences affecting their permanent resident status.
- The second survey did not contain a large enough sample of nominees without job offers to evaluate how likely it would be for nominees who were selected based on their higher education alone to become economically established in Ontario.

Ontario is not alone in having issues with tracking nominees. The latest available annual report by the federal government on provincial nominee programs noted that landing and retention data were not well reported by most Canadian jurisdictions. Specifically, no province or territory except Yukon was able to provide data on whether nominees were working in their intended occupation.

We noted that one province uses health-card data to track landed immigrants. We noted that the Program does not utilize data from government-issued identification, such as health cards, social insurance numbers and driver's licences, that would allow it to track nominees once they come to Ontario.

Average Income of Nominees Outdated

A program evaluation performed in 2013 likely overestimated how much more Ontario's nominees earned in wages than nominees in other comparable programs. Specifically, the Ministry's consultant who conducted the evaluation reported that average annual employment earnings were $58,600 for nominees of the Ontario program, $43,300 for all nominee programs Canada-wide, and $35,700 for the Federal Skilled Workers Program. We question the conclusions reached for two reasons. First, the analysis included only those nominees who filed a tax return; those who did not file a tax return because they did not end up working and therefore had no income to report, or who never settled in Ontario, were excluded. Second, because the income tax data used was for the 2010 tax year, nominees without a job offer—representing 67% of all nominees—would most likely not be included in the analysis. This is because it was only in mid-2010 that individuals with a master's degree or PhD who did not have a job offer became eligible under the Program.

Program Lacks Meaningful Performance Indicators

The service standards the Ministry has developed for the Program deal primarily with the timeliness of processing applications, yet additional performance measures would also be useful. For example, the percentage of nominees accepted or rejected by the federal government (broken down by reason, such as failing admissibility checks or overriding the provincial decision) could be helpful. Another could be the percentage of nominees who are economically established in Ontario three years after being nominated.

The federal government evaluated all provincial nominee programs in 2011 and found that it was difficult to compare them because of a lack of common performance indicators and inconsistent reporting. In general, we did not identify additional performance measures used by other jurisdictions.

Ontario has been participating in cross-jurisdictional working groups related to performance measures. The goal is to come up with a set of common performance indicators for all provincial nominee programs by the end of 2014. Indicators being considered include:

- tracking information on specific verification activities, such as the frequency of in-person interviews and site visits conducted;
- the number of refusals or withdrawals involving fraud or misrepresentation;
- application inventories by component in order to assess demand; and
- application approval rates by program component.

We noted that the Ministry was only collecting some of the information that would be needed to assess performance with the proposed indicators.

RECOMMENDATION 13

To ensure that the Provincial Nominee Program is effective in selecting individuals who are likely to be an economic benefit to the province, the Ministry of Citizenship, Immigration and International Trade should:

- obtain nominee information, such as provincial health insurance and driver's licence numbers, to help follow up on the outcomes for landed nominees;
- evaluate whether nominees without job offers who were selected based on their higher education have become economically established in Ontario; and
- establish performance indicators for each program component and for assessing fraud-detecting activities, including those recommended by federal-provincial-territorial working groups, and collect and analyze the required information.

MINISTRY RESPONSE

The Ministry will consult with the Office of the Information and Privacy Commissioner to determine if it has the authority to collect personal information from other provincial government entities that would allow the Ministry to follow up on nominee outcomes.

The Ministry will evaluate the outcomes of its international-student-without-a-job-offer stream using a combination of nominee surveys, employer surveys and federal data sets. The Ministry will continue to urge the federal government to update its data sets on a more regular basis than its current practice of updating only every three to four years.

The Ministry has recommended to the federal government that a program integrity workshop be hosted in 2015. This would allow for the sharing of best practices, the review and analysis of current information and experiences, and the clarification of expectations. Ontario remains an active member of a performance indicator federal-provincial-territorial working group, which is expected to standardize anti-fraud tracking mechanisms across provincial nominee programs and the federal government.

Fee Revenue

Although Ministry of Finance policies state that when a program charges fees, the revenue generated should be enough to recover the full cost of the program, the Program has not yet fully recovered its costs.

The Program charges a non-refundable processing fee for each nominee application submitted (but not for employer applications) in an attempt to ensure that the Program remains cost neutral to taxpayers. Application fees range from $1,500 to $3,500 per applicant depending on nominee type and the applicant's intended destination, as shown in **Figure 1**.

The Ministry has a goal to fully recover program costs incurred to date by the end of the 2014/15 fiscal year. Program costs include estimated overhead costs and estimated expenses incurred by other ministries that help assess investment projects. On a cumulative basis since 2009/10, projected program costs at the time of our audit exceeded actual revenue by $2.9 million as of March 2014, as shown in **Figure 9**. To address the deficit, rather than raising program fees, the Ministry plans to improve

Figure 9: Actual Program Revenues and Estimated Program Expenses, 2009/10–2013/14 ($ million)

Source of data: Ministry of Citizenship, Immigration and International Trade

	Revenue (Actual)	Expense (Estimated)*	Surplus/ (Deficit)
2009/10	1.0	1.7	(0.7)
2010/11	1.9	2.2	(0.3)
2011/12	2.2	2.6	(0.4)
2012/13	2.8	3.7	(0.9)
2013/14	3.1	3.7	(0.6)
Total	**11.0**	**13.9**	**(2.9)**

* Program expenses consist of direct program costs, overhead costs and costs incurred by ministries assessing investment applications.

efficiencies by adopting new ways to process files, including the introduction of electronic filing and single-tiered application processing. Based on revenues collected up to mid-September 2014, we do not expect the Program to break even by the end of the 2014/15 fiscal year.

Our audit detected several errors in the Ministry's tracking sheet of revenue, including duplicating receipt entries, application files erroneously deleted where deposits were made, and data entry errors. In addition, the Ministry does not ensure that revenue collected is recorded accurately in the government's financial reporting system. After our inquiry, the Ministry informed us that in June 2014 it implemented a new process for reconciling payments so it can better investigate discrepancies in a timely manner.

RECOMMENDATION 14

To ensure that appropriate user fees are charged and the established amounts are collected, the Ministry of Citizenship, Immigration and International Trade should:

- establish processing fees that recover the full cost of the Program;
- consider implementing a processing fee for employers; and
- reconcile fees collected to revenue recorded in the financial system on a regular basis.

MINISTRY RESPONSE

The Ministry is committed to a fee structure that enables the fees charged and revenue generated to fully recover program costs. The Ministry will monitor and adjust fees during the anticipated period of growth, based on patterns of revenue and cost that recover the full cost of the Program and ensure compliance with a 1998 Supreme Court of Canada decision.

The Ministry will consider implementing a processing fee for employers. The Ministry will also review possible administrative fees for investment-component applications.

The Ministry will develop a process to regularly reconcile program fees collected to revenue recorded in the financial system.

Chapter 3

Ministry of Community and Social Services

Section

3.10 Residential Services for People with Developmental Disabilities

Background

The Ministry of Community and Social Services (Ministry) funds residential and support services for people with developmental disabilities to help them live as independently as possible in the community. The Ministry is not required to provide these services under legislation, so access to residential services depends primarily on the decided-upon level of Ministry funding, which is determined in relation to all other government priorities.

There are different legal definitions of developmental disabilities for adults and children.

The *Services and Supports to Promote the Social Inclusion of Persons with Developmental Disabilities Act, 2008* says adults have a developmental disability if their **cognitive** and **adaptive** functioning was significantly and permanently limited before the age of 18 and affects areas of major life activity such as personal care or language skills.

Under the *Child and Family Services Act, 1990*, a child has a developmental disability only if he or she has a condition of mental impairment during the formative years that is associated with limitations in **adaptive** behaviour. This means that someone receiving services as a child may no longer be eligible for them under the adult Act on reaching age 18 because they may not be cognitively impaired.

The Ministry estimated there were 62,000 adults in Ontario with developmental disabilities in 2012, and that about half needed residential services. As shown in **Figure 1**, about 17,900 people received residential services during the 2013/14 fiscal year, 98% of them adults. Another 14,300 adults were on a wait list for services at year-end.

In the 2013/14 fiscal year, the Ministry paid a total of $1.16 billion to 240 not-for-profit community agencies operating nearly 2,100 residences that provided residential and support services to people with developmental disabilities. Of this total, 97% was for adult services.

The Ministry funds two different kinds of residential services for children, and five for adults, ranging from supported independent living in a home-like setting to intensive-support residences that provide 24-hour care. Some agencies may deliver more than one type of program or service and operate several residences. **Figure 2** provides a breakdown of funding for each type of residential service. Almost 76% of total funding in the 2013/14 fiscal year was for adult group homes.

The Ministry, through its regional offices, is responsible for overseeing program delivery by agencies. Children's residential services are funded by the Ministry of Community and Social Services. The Ministry of Children and Youth Services handles complaints, licensing of residences where children reside and the inspection of those residences.

Figure 1: Ministry-funded Residential Services for People with Developmental Disabilities

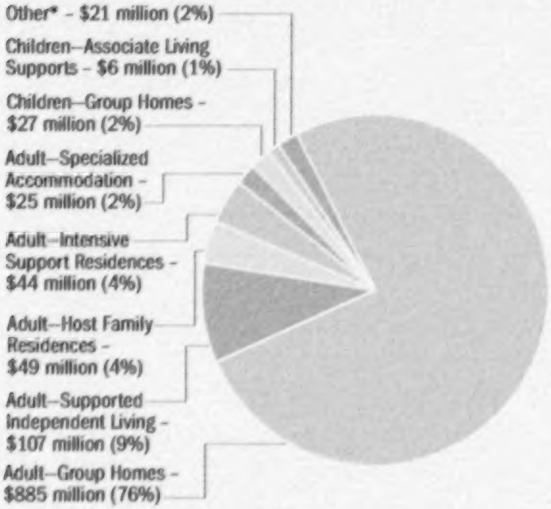
Source of data: Ministry of Community and Social Services

Type	Description	# of People Served in 2013/14	Wait List as of March 31, 2014
Supported Group Living Residences (Group Homes)	Three or more individuals live in a group home operated by a transfer payment agency where 24-hour care and support services are provided seven days a week.	9,893	6,938
Supported Independent Living	Individuals often live in their own accommodation such as a rental apartment, with some staff support provided by transfer payment agencies.	5,537	5,052
Host Family Residences/ Associate Living	Individuals live in a family's home, similar to foster care. The family receives a per diem through a transfer payment agency to cover some living expenses.	1,633	833
Intensive Support Residences	One or two individuals live in a residence operated by a transfer payment agency where 24-hour care and support services are provided seven days a week.	328	197
Specialized Accommodation	Transitional or permanent specialized settings, including residential care, structured support, planning and treatment for individuals with a developmental disability and a co-existing mental illness or behavioural challenges.	462	–
		17,853	**14,326***

* Includes an additional 1,306 people for whom a residence type was not specified.

Figure 2: Funding for Residential Services for People with Developmental Disabilities, 2013/14

Source of data: Ministry of Community and Social Services



* These are mortgage subsidies provided since 1998 to agencies that primarily house persons with developmental disabilities. Funding is provided under a Memorandum of Understanding with the Ministry of Municipal Affairs and Housing.

In 2011, the Ministry established Developmental Services Ontario (DSO) as the single access point in each of its nine regional offices that existed at that time for all adult developmental services it funds. During 2013/14, the Ministry reduced its nine regions to five, but kept a DSO office in each of the original nine regions. The Ministry has contracted with nine not-for-profit community agencies to each operate a DSO office. The roles and responsibilities of each organization in the system are illustrated in **Figure 3**.

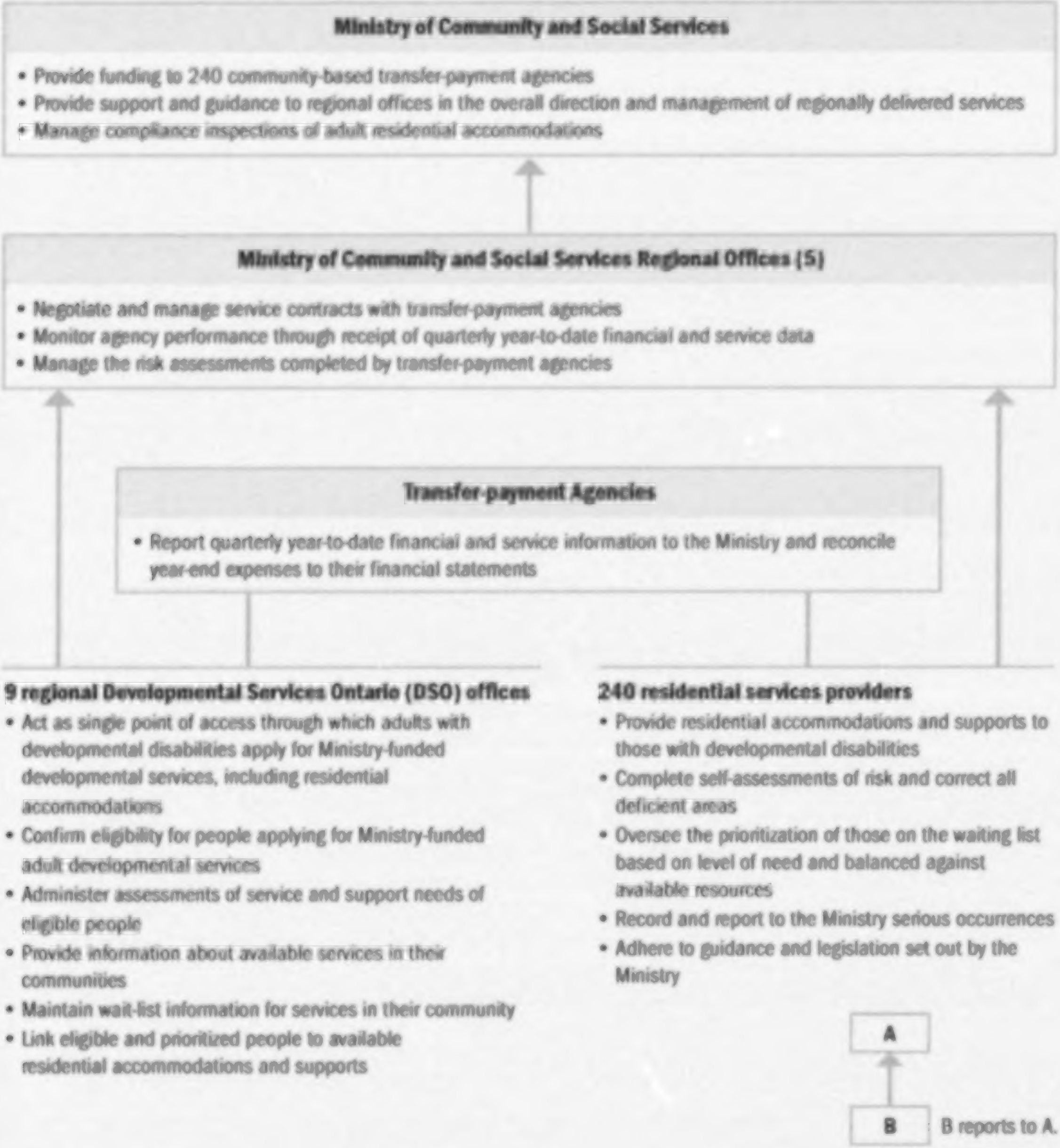
The Ministry of Community and Social Services says the adult developmental service system faces challenges because its clients are growing older and living longer, and because their care needs are more complex (40% of people with developmental disabilities also have mental-health issues).

In October 2013, the Legislative Assembly created the Select Committee on Developmental Services (Committee) to develop strategies for developmental services and the co-ordination of program and service delivery across provincial ministries. The Committee was to focus on several areas, including the need for a range of affordable housing options for youth and adults.

After hearing from relevant ministries, service providers and families of those receiving or waiting for services, the Committee issued an interim report in March 2014 and a final report with recommendations in July 2014. We considered the Committee's work during our audit, and we included the recommendations applicable to Ministry-funded residential services in **Appendix 1**.

Figure 3: Roles and Responsibilities of Providers of Services for People with Developmental Disabilities

Prepared by the Office of the Auditor General of Ontario



Ministry of Community and Social Services

- Provide funding to 240 community-based transfer-payment agencies
- Provide support and guidance to regional offices in the overall direction and management of regionally delivered services
- Manage compliance inspections of adult residential accommodations

Ministry of Community and Social Services Regional Offices (5)

- Negotiate and manage service contracts with transfer-payment agencies
- Monitor agency performance through receipt of quarterly year-to-date financial and service data
- Manage the risk assessments completed by transfer-payment agencies

Transfer-payment Agencies

- Report quarterly year-to-date financial and service information to the Ministry and reconcile year-end expenses to their financial statements

9 regional Developmental Services Ontario (DSO) offices

- Act as single point of access through which adults with developmental disabilities apply for Ministry-funded developmental services, including residential accommodations
- Confirm eligibility for people applying for Ministry-funded adult developmental services
- Administer assessments of service and support needs of eligible people
- Provide information about available services in their communities
- Maintain wait-list information for services in their community
- Link eligible and prioritized people to available residential accommodations and supports

240 residential services providers

- Provide residential accommodations and supports to those with developmental disabilities
- Complete self-assessments of risk and correct all deficient areas
- Oversee the prioritization of those on the waiting list based on level of need and balanced against available resources
- Record and report to the Ministry serious occurrences
- Adhere to guidance and legislation set out by the Ministry

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Community and Social Services has effective mechanisms in place to:

- meet the residential needs of people with developmental disabilities in a cost-effective manner; and
- monitor service providers' compliance with regulations, ministry policies and contractual obligations.

Senior management at the Ministry of Community and Social Services and the Ministry of Children and Youth Services reviewed and agreed to our audit objective and criteria. Senior management at the Ministry of Children and Youth Services reviewed and agreed only to those criteria relevant to them, specifically those dealing with access to children's services and inspections of children's residences.

In conducting our audit, we reviewed relevant documents; analyzed information; interviewed appropriate ministry and agency staff; and reviewed relevant research from Ontario and other jurisdictions.

We conducted our audit work primarily at the head office of the Ministry of Community and Social Services, three regional offices that perform functions for both the Ministry of Community and Social Services and the Ministry of Children and Youth Services, and the three Developmental Services Ontario (DSO) offices in the regions selected. At the time of our audit, the three regions selected accounted for 46% of all Ministry funding to agencies, 48% of all people with developmental disabilities served in the province, and 60% of all those waiting for residential services. We also visited three agencies offering different types of accommodations to better understand the residential services they provide and to review selected procedures.

In addition, we reviewed transcripts of all the hearings of and reports by the Select Committee on Developmental Services. We carried out fieldwork between November 2013 and May 2014.

In summer 2013, the Ministry's internal audit team conducted an audit of travel, meals and hospitality expenditures at agencies that delivered services to people with developmental disabilities. We reviewed its report and considered its findings in the audit areas we examined.

Summary

In the last four years, the number of Ontarians with developmental disabilities receiving residential services and supports grew only 1%, to 17,900, while spending on those services and supports rose 14%, to $1.16 billion. Although a portion of this funding increase was intended to accommodate 1,000 more people over four years, only 240 more were being served by the end of the third year. In addition, at March 31, 2014, the number of people waiting for service was almost as high as the number of people who had received service in the previous 12 months.

In recognition of the challenges facing this sector, the Ministry began work in 2004 on a comprehensive transformation of developmental services in Ontario. It was still working on this project at the time of our last audit in 2007—and the project was still unfinished at the time of this latest audit in 2014.

The Ministry did make some progress in the past decade by, for example, creating a single point of access for services through the new Developmental Services Ontario (DSO) offices, and standardizing eligibility criteria and application processes.

However, significant shortcomings remain in the computer system used to track people waiting for or receiving services. In addition, the Ministry has yet to complete development of a consistent prioritization process or revise its funding methods to tie funding to individuals' needs.

At present, ministry funding to service providers is based on what the providers received in previous years rather than on the level of care required by the people they serve. A new funding method based on a reasonable unit cost for services by level of care could lead to savings that would enable more of the people currently on wait lists to be served. This change in approach could also help it better identify demands for service, strengthen the system's ability to support need and reduce gaps in service.

Our most significant findings are as follows:

- ***People with the highest-priority needs are not usually placed first:*** Eligible people who need residential services are assessed and prioritized for services. However, placements go to people who are the best fit for the spaces that become available, instead of those assessed as having the highest priority needs. In two of the regions we visited, for example, 18% and 33% of those placed during 2013/14 had a lower-than-average priority score on their regional wait lists.
- ***Funding is not needs-based and cost variances are unexplained:*** Funding to agencies is based on what the agencies got in previous years, and typically changes only when the service they provide changes or expands. We calculated the cost per bed or cost per person across the system for the 2012/13 fiscal year, and found big variations. For example, the cost per bed for adult group homes ranged from $21,400 to $310,000 province-wide, and we also observed large variances within regions, which the Ministry was unable to explain. The Ministry said in 2004 it needed to revise its funding method, but was still working on that in 2014. The Ministry acknowledged that people with similar needs may be receiving different levels of service.
- ***There is no consistent prioritization process across regions:*** At the time of our audit, the information needed to set funding on the basis of a person's support needs was not available because most people in the system prior to 2011 (either awaiting or receiving services) had not had a needs assessment completed by a DSO or been prioritized for services. In addition, although a provincially consistent needs-assessment procedure was introduced in 2011, the process for prioritizing people for the wait list is not consistent across regions. This impairs the Ministry's ability to identify regions and agencies most in need, and to allocate funds accordingly.
- ***Roles and responsibilities over children's residential services need clarity:*** The segregation of roles between the Ministry of Community and Social Services and the Ministry of Children and Youth Services regarding children's residential services is confusing; one Ministry is responsible for contracting, funding and managing the relationship with service providers, and another Ministry is responsible for handling complaints, and licensing and inspecting those service-provider premises. Confusion can arise over who is accountable for the overall delivery of children's residential services.
- ***There is no consistent process to access children's residential services:*** Some children access residential services through a centralized access point while others access residential services through a service provider—the method of access used depends on where in the province children live. Furthermore, we noted there is no consistent wait-list management process for children's residential services. As a result, the Ministry of Children and Youth Services is unable to determine the demand for children's residential services.
- ***Program lacks performance indicators:*** The Ministry has established no performance indicators to assess the quality of residential care provided. Moreover, the Ministry does not survey residents or families about their level of satisfaction with services.
- ***Crisis placements are often not short-term as intended:*** There is a local urgent-response process to which each of the nine DSO offices can refer individuals in crisis. About 100 temporary beds are available for these placements province-wide. Although the beds are intended only for stays of about 30 days,

individuals often stay much longer because of the lack of permanent accommodation with appropriate supports. These short-term beds are then unavailable to others in crisis. In one region, for example, 15 temporary beds were occupied by the same people for extended periods and were unavailable between 2010 and 2013.

- ***Wait lists for residential services are long:*** The number of people waiting for adult residential services and supports stood at 14,300 as of March 31, 2014, compared to the 17,400 who received services in the same year. Furthermore, wait lists are growing faster than capacity; between 2009/10 and 2013/14, the number of people waiting for adult residential services increased 50%, while the number served increased only 1%. We calculated that at this rate, it would take 22 years to place everyone who is currently waiting for one of the two types of residences that house the most people—assuming no one else joins the list.
- ***Deficiencies in managing vacancies:*** The long-term-care home system sets deadlines for people to decide whether they will accept a placement and when they will move in. However, there are no such deadlines for developmental disability residential services. As a result, contrary to ministry expectation, it takes longer than 60 days to fill vacancies. We found that the average time to fill a vacancy in 2013/14 in the three regions we visited ranged from 92 to 128 days.
- ***Adult residences may go uninspected for years:*** Some 45% of residences have not been inspected since 2010 or earlier. In June 2013, the Ministry adopted a new model that selects agencies for compliance inspection—but that involves a physical inspection of only a sample of residences operated by the agency selected. Hence, there is no guarantee that every residence will eventually be inspected. Other concerns include an average 24 days' advance notice of inspection, and the fact that most agencies have not been correcting items of non-compliance within the required 60 days.
- ***Care standards are few and open to interpretation:*** Ontario has set standards of care in some areas, but most are general in nature. For example, the standard for group homes requires only that the number of support staff must be adequate and that staffing schedules reflect resident requirements. However, there is no specified staff-to-resident ratio. New Brunswick requires specific staff-to-resident ratios based on the level of care each residence provides.
- ***Numerous problems with data integrity:*** The Ministry created the Developmental Services Consolidated Information System (DSCIS) database in 2011 to combine existing client information maintained by the various service providers. However, three years after implementation, data in the DSCIS still has not been validated and the system is not fully functional, which has forced each DSO office to maintain a separate information system. Our review of the serious occurrence reporting system also found that the number of serious incidents reported by agencies for 2012 and 2013 was understated by about 360 incidents, and that information was incomplete for an additional 1,230 incidents.

OVERALL MINISTRY RESPONSE

The Ministry of Community and Social Services (Ministry) funds residential supports in the community for adults with developmental disabilities that range from supported independent living, where people live in their own apartment and receive support from staff from a service agency, to group homes with staff providing supports 24 hours a day, seven days a week. The range of services reflects the diverse preferences, strengths, needs, aspirations and circumstances of individuals with developmental disabilities, and their families. Ministry-funded residential services aim to support individuals' choices and provide the supports they need to live independently and become fully integrated in the community.

The Ministry has made substantial progress since beginning the long-term transformation of developmental services in 2004. The goals of this transformation are to create a developmental services system that is fair, accessible and sustainable, and promotes social inclusion for adults with developmental disabilities. The last province-run institution for adults with developmental disabilities was closed in 2009.

Since 2011, the Ministry has:

- implemented new legislation aimed at promoting greater social inclusion;
- moved to a single direct funding program for adults with a developmental disability;
- introduced a standardized application and assessment tool; and
- introduced a single-window entry point through Developmental Services Ontario to make it easier and more consistent for people to apply for services.

The Ministry appreciates the findings and recommendations of the Auditor General to improve its management of the residential services program. Progress has already been made or is planned for some of the areas identified by the Auditor General:

- In October 2014, the Ministry developed a prioritization tool for use across the province, and began phased implementation with the Passport program, which provides funding to adults with developmental disabilities to take part in community programs, hire a support worker or provide respite to their caregivers.
- Starting in 2015/16, the Ministry will strengthen its compliance inspection process by conducting inspections of all service agencies annually.
- In conjunction with the Ministry of Children and Youth Services, the Ministry is in the process of improving serious occurrence reporting to support better decision-making both regionally and provincially. Also, in 2015, the Ministry will create an oversight team to improve reporting, oversight, and monitoring of the developmental services sector.
- The Ministry is continuing to enhance the provincial information technology system (DSCIS) to improve our ability to plan and manage the system.

Starting in 2014, and continuing over the next three years, the Ministry is investing $810 million. This includes $243 million to reduce the residential waitlists; $274 million to reduce the direct funding waitlists; $200 million to build system capacity; and the remaining $93 million to focus on improving outcomes in housing, employment and sectoral performance. This investment will continue to drive the transformation of the system, so individuals with developmental disabilities can be fully included in the fabric of our communities and live as independently as possible.

Detailed Audit Observations

Program Funding, Expenditures and Performance Measures

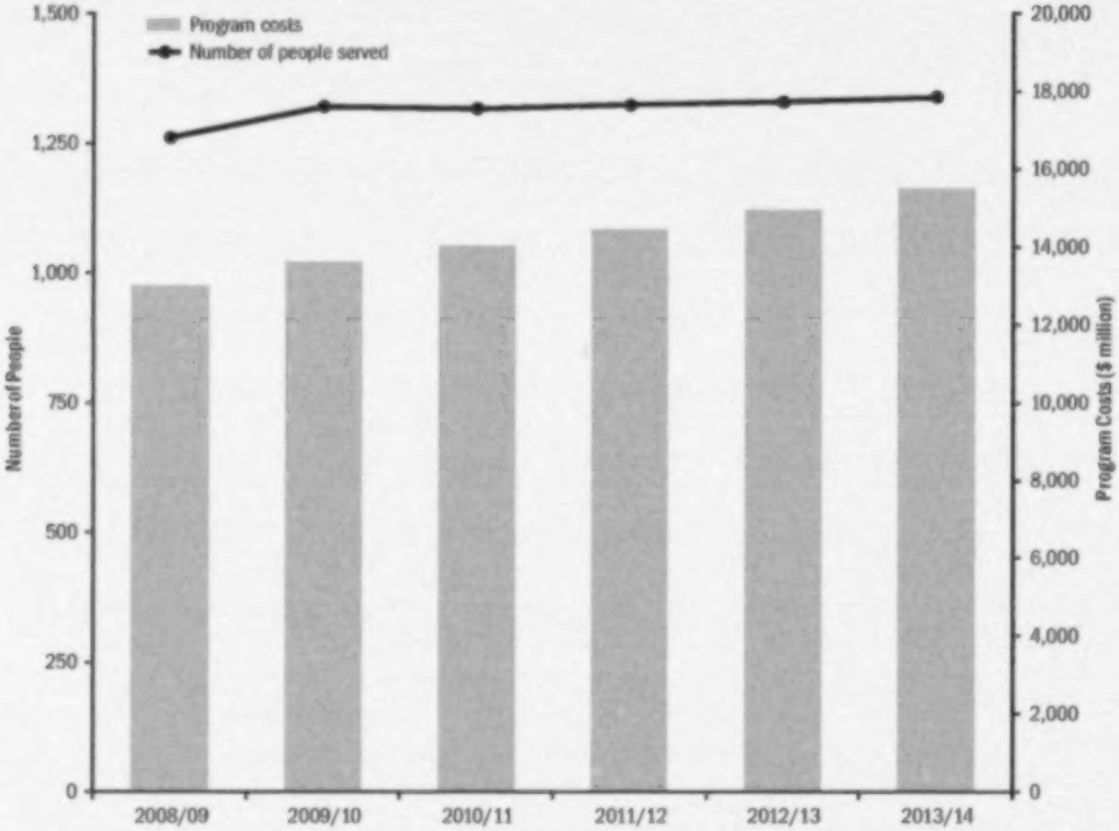
Program Costs Increasing Faster than the Number of People Served

From 2009/10 to 2013/14, funding for residential services increased $142 million, or 14%, to $1.164 billion, but the number of people served rose only 1%, as shown in **Figure 4**.

The Ministry could not tell us how much of that $142-million increase went to creating new residential spaces, helping children transition from children's residential services to adult residential

Figure 4: Total Program Expenditures and Number of People Served, 2009/10–2013/14

Source of data: Ministry of Community and Social Services



services, or increasing base funding to alleviate operating pressures. In addition, the Ministry was unable to provide us with a complete listing of all funding initiatives and their impact to date.

The $142-million increase included $84 million announced in 2010/11 to serve 250 additional individuals each year over a four-year period (or 1,000 total new spaces at the end of the four-year period in the 2013/14 fiscal year). However, the total number of adults served by the end of the third year was not the expected 750, but rather only 240. The Ministry speculated that this was because some people with complex needs might have required two or three times the average funding.

Funding for Service Providers Not Based on Individuals' Needs

Base annual funding to providers of residential services and supports is normally based on the previous year's funding level rather than the specific needs of individuals in their care, and generally changes only when an agency changes or expands its services. In such cases, agencies must submit a business case to the Ministry for consideration and approval. Agencies may also receive one-time funding to deal with in-year pressures. In the 2012/13 fiscal year, 97% of funding was allocated on a historical basis and the remaining 3% was one-time money.

We also reviewed funding methods for new initiatives over the last four fiscal years. This additional funding was provided primarily to reduce the wait list for residential services and/or to transition children who had turned 18 to adult services. We noted that the allocation method for new initiatives did not take into account the level of support required by the individuals needing residential services.

At the time of our 1997 audit on the accountability and governance of transfer-payment agencies, the Ministry indicated that it planned to establish provincial funding benchmarks for all residential programs based on the level of support required by individuals in their care. As part of its plan to transform the developmental services program, the Ministry in 2004 identified the funding method as an area needing revision. In 2009, the Ministry conducted a review of funding practices in other jurisdictions and found that most of them were testing or moving toward individualized funding based on assessed needs.

Under a needs-based funding system, information on individual support needs is to be gathered using a common assessment tool. In Ontario, the needs assessment tool is the Supports Intensity Scale, which measures the pattern and intensity of supports a person needs to participate in everyday life activities. The next step is to create different need profiles and categories to address the varying levels of need, and then tie funding to those levels.

In 2011, the Ministry adopted the Supports Intensity Scale and commissioned a consultant to design a funding allocation formula using this tool. As of May 2014, however, the Ministry was still in the testing phase for determining levels of support categories.

At the time of this audit, the Ministry did not have the necessary information to develop a needs-based funding system because most people who entered the system before 2011 (when the Supports Intensity Scale was implemented) had not had their needs assessed. This included people receiving or waiting for services. The Ministry acknowledged that as a result, people with similar needs may be receiving different levels of service and support.

Other jurisdictions have established funding models based on an individual's assessed level-of-care needs. For example:

- In New Brunswick, residences are classified by the level of care provided and are funded accordingly, with those providing the most intensive services receiving the highest per diem rates. The daily rate for a person receiving the highest level of care is double the daily rate for a person receiving the lowest level of care.
- In Manitoba, funding to agencies delivering residential services is based on a combination of individualized funding and per diem rates. Individualized funding is based on the level of support required by an assessed individual—basic, enhanced or complex. Per diem funding covers standard expenses such as shelter, general operations, administration and staffing.

Although they do not serve the same population, long-term-care homes in Ontario provide many similar services to equally vulnerable people, and are funded based on client needs. The homes receive a per diem rate, made up of four components, for each approved or licensed bed. The first three components are the same for all homes, and cover such items as program and support services, food, and other accommodation costs. However, the fourth component, relating to nursing and personal care, is adjusted to reflect residents' specific care needs—the higher the need, the higher the rate for that portion of the per diem funding.

Large Variance in Unit Costs by Residential Service Type

We analyzed the unit cost of providing services in the 2012/13 fiscal year for each residential setting, as shown in **Figure 5**. Where capacity was known, we calculated the cost per bed. Where capacity was unknown, as in the case of host family residences and supported independent living, we calculated the cost per person served. We found a wide variation in unit costs among agencies for similar types of residential services across the province and also noted large ranges in unit costs within regions.

Figure 5: Actual Cost per Bed by Residential Service Type, 2012/13

Source of data: Calculated by the Office of the Auditor General using quarterly data submitted by service providers to the Ministry of Community and Social Services

Residential Types	Range ($)	Median Unit Cost ($)
Adult – Group Homes	21,400-310,000	93,400
Adult – Specialized Accommodation	3,000-341,500	143,000
Adult – Intensive Support Residences	21,200-352,000	158,000
Adult – Host Family Residence*	8,500-133,000	28,300
Adult – Supported Independent Living*	1,800-150,000	19,900
Children – Group Homes	22,300-262,500	147,600
Children – Associate Living Supports*	12,900-122,200	37,700

* Represents cost per person served rather than cost per bed because the Ministry does not collect data on available capacity or number of beds.

Agencies may operate different types of residential services and multiple residences. Since all data is collected at the agency level, with no details about individual residences, the Ministry cannot compare the cost per bed for residences of the same type and capacity.

In addition, because most people living in Ministry-funded residences prior to the adoption in 2011 of the Supports Intensity Scale have not had their care needs assessed using the Scale, the Ministry cannot compare the unit cost for people with similar needs, further limiting its ability to identify agencies and residential types operating most cost-effectively.

Although the Ministry is aware that there are large variances in unit costs, and has taken steps to better understand them, it has not determined a reasonable unit cost. In 2011, for example, the Ministry asked agencies to complete a survey for the 15,000 residents in their care at the time, to determine:

- whether higher costs are associated with the type of residential service and the levels of support required;
- whether there is a relationship between levels of support and client characteristics; and
- which characteristics are associated with different levels of support.

The Ministry confirmed that agencies serving people with higher support needs have higher per-unit costs, but it has not built a model to confirm the support needs of residents and, in turn, the cost.

In 2012, the Ministry launched a project to explore whether resources are deployed on a needs basis, and to determine the range of unit costs and whether client profiles could help explain cost variances. The Ministry conducted its analysis using data for 2011/12 and 2012/13, and found a large range of unit costs for each type of residential service. It concluded that improvements are needed to address data-quality issues, and better understand the differences in the levels of need agencies face and the quality of services they provide.

RECOMMENDATION 1

To ensure that funding for residential services and supports for people with developmental disabilities is equitable and tied to the level of support required by individuals in care, the Ministry of Community and Social Services should establish a funding model based on the assessed needs of people requiring services.

MINISTRY RESPONSE

The Ministry has been working toward the development of a funding model based on risk and needs. The approach to funding will be guided by principles of equity, stability and sustainability. The Ministry has undertaken a series of initiatives to better understand the linkages between resource deployment and client characteristics, including conducting an extensive review of service costing, engaging stakeholder and expert panels to review and comment on potential models, and completing comprehensive literature and inter-jurisdictional reviews.

The Ministry recognizes that a new funding model is essential but will take time to develop and implement. The implementation of a new funding model will only be successful with the partnership of its service providers, individuals and their families. A completion date has not yet been determined.

In the meantime, the Ministry is developing funding guidelines to support equitable funding based on the needs of individuals, and plans to distribute these guidelines to service providers in 2015/16.

Program Lacks Meaningful Performance Indicators

The objective of the program is to provide residential services and supports to enhance clients' independence and inclusion in the community. We found that the Ministry has set no performance indicators that can be benchmarked, measured and reported on; nor does the Ministry survey residents or their families to measure satisfaction with the services it funds.

Although the Ministry collects information from service providers on a quarterly basis, this information measures only output, not outcomes.

In general, we found that other jurisdictions that fund residential services and supports for people with developmental disabilities did not have useful performance measures. However, we did find performance indicators that could be applied to Ontario's program for people with developmental disabilities from programs in other jurisdictions providing residential services for other vulnerable people, such as children and the frail elderly. These included:

- percentage of residents who have had a medical or dental check-up in the previous 12 months;
- prevalence of falls, behavioural symptoms and depression;
- percentage of residents taking multiple medications and/or for whom numerous medication errors have been reported;
- percentage of residents who say they are satisfied with their personal care; and
- percentage of residential staff providing direct care who have received the specified number of hours of relevant formal training on a regular basis.

RECOMMENDATION 2

The Ministry of Community and Social Services should review performance measures used in other jurisdictions to evaluate residential services provided to vulnerable people and, where appropriate, adapt these to develop relevant performance measures for residential services for people with developmental disabilities.

MINISTRY RESPONSE

The Ministry recognizes the importance of outcome-based performance measurement to enhance service delivery and system accountability.

In July 2014, the Ministry started reviewing options for adopting a quality improvement framework, including examining other Canadian and international jurisdictions. The Ministry is also consulting experts in Ontario to consider ways to monitor the quality of services and supports provided to adults with developmental disabilities. This work will continue through 2014/15 and into the next year.

The Ministry will review the research results and will work toward the development of performance measures for developmental services related to individual and system outcomes.

Accessing Residential Services

The process of providing Ministry-funded adult developmental residential services involves:

- confirming eligibility;
- assessing needs;
- prioritizing access to services; and
- matching eligible people to available resources.

Eligibility Confirmation and Needs Assessment Have Improved

Since we last audited the program in 2007, the Ministry has developed a consistent process for confirming eligibility and assessing needs of applicants. Legislation was enacted in 2008 that clearly defines an adult with a developmental disability. As well, the Ministry developed a new application form that outlines eligibility criteria and specifies required documentation. The application captures information on the applicant's individual circumstances, strengths, challenges and goals, as communicated by the individual and/or his or her family. The Ministry also introduced the Supports Intensity Scale, to help identify the intensity of supports a person needs to participate in everyday life.

Since the establishment of the nine Developmental Services Ontario (DSO) offices as the single point of access, all persons applying for ministry-funded adult developmental services and supports, including residential services, must have their eligibility confirmed and their needs assessed by a DSO office. People on the wait list since before July 2011 do not have to have their eligibility confirmed, but must have their needs assessed.

Based on a sample of applications we reviewed in the three regions visited, we found that DSO offices were assessing applicants' eligibility and needs in accordance with legislation and ministry policies.

However, we also found that it took far too long to process an application. We calculated that in 2013/14, it took an average of 209 days, or almost seven months, from the time an application was received until a needs assessment was completed. The biggest single delay was from the time an applicant's eligibility was confirmed until the time a needs assessment was done—an average of four months. DSO office staff we spoke with estimated that under ideal conditions it should take only about three business days to complete a needs assessment. The Ministry attributes these long wait times to not having enough qualified staff to perform the assessments, and to scheduling and administrative issues. Based on the number of assessors and the number of applicants deemed eligible in 2013/14, the annual workload ranged from 34 to 130 required assessments per assessor. This suggests that some DSO offices could be understaffed while others are not.

Ministry Database Lacks Reliable and Accurate Information

In July 2011, the Ministry launched the Developmental Services Consolidated Information System (DSCIS) database to record personal and service details about every adult with a developmental disability requesting or receiving services and supports. Three years later, the Ministry still has not finished validating the data entered into the DSCIS.

The DSCIS was meant to support DSO offices as the single point of access for adult developmental services and supports, and contains information on intake, eligibility confirmation and needs-assessment status. However, it does not record prioritization scores, vacancies or wait lists; these details reside in the individual databases of each DSO office.

Service providers had previously maintained their own systems but migrated their data to the new DSCIS. At a hearing with the Select Committee on Developmental Services, DSO office staff expressed frustration with what they described as a semi-operational database that was intended to help manage their work, but has instead forced them to track information themselves.

No Consistency in Prioritizing Applicants for Services

The Ministry has not completed development of a provincially consistent process to prioritize people awaiting developmental services. Instead, each region has a different prioritization process.

In one region we visited, prioritization was done by a committee composed of representatives from developmental service agencies, other sectors such as mental health, and family members of people with developmental disabilities; in another region, two people from a developmental service agency did the prioritization; and the third region used an automated scoring system.

In addition, each region has its own prioritization tool with its own identified risk factors and weightings. This results in inconsistent prioritization scores across the province, making it difficult for the Ministry to identify the location of people with the most immediate needs for resources and to be able to allocate funding accordingly.

Applicants Whose Needs Match Existing Resources Are Placed First

One would expect that people assigned the highest priority would be offered vacancies first, but agencies often do not have the required services and support in place to meet the most challenging needs. As a result, the current matching process involves selecting the person who best fits the space that has become available. Although this may be practical, it does not serve the highest-priority person first.

In one region we visited, for example, 33% of those placed in residences during 2013/14 had a prioritization score below the average of others on the regional wait list. In another region visited, 18% of those placed during 2013/14 had scores below the average on the wait list.

This indicates that people with greater needs face greater difficulty in finding appropriate residential services and supports. For example, one person who had been on the wait list since 2008 was rejected by agencies for nine vacancies because of behavioural issues; at the time of our audit, the person lived in Toronto's Centre for Addiction and Mental Health, waiting for an appropriate placement to become available. Similarly, another person was rejected by agencies nine times since 2012 because of behavioural issues, and is currently in hospital because no housing with appropriate behavioural supports can be found.

In both cases, the individuals are receiving some support, albeit in a setting that is inappropriate for them. At the same time, they are tying up a bed that could go to someone requiring those particular supports.

Crisis Placement Not Short-term in Nature and Not Meeting Needs

The Ministry requires each DSO office to follow the Ministry-established local urgent-response process in order to place individuals in urgent need of supports. This can be, for example, when a family member is unable to continue providing care essential to the health and well-being of an adult with a developmental disability.

There are two types of temporary beds in the developmental services system—safe beds (used exclusively for people in crisis) and treatment beds (primarily intended for people with behavioural or mental health issues in addition to a developmental disability who may also be in crisis). Thirty-one safe beds and 70 treatment beds are available province-wide, and 87 people in crisis were placed in them in 2013/14.

Although the beds are intended for short-term stays of about 30 days, we found that individuals often stay longer because of a shortage of appropriate permanent accommodations. This makes the beds unavailable to others facing a crisis. For example, in one region, eight individuals occupied treatment beds for long stays, making them unavailable to others between 2010 and 2014; in another region, 15 individuals occupied treatment beds for long stays, making them unavailable to others between 2010 and 2013.

During its hearings, the Select Committee on Developmental Services was told that in crisis situations, young people with developmental disabilities may be placed in psychiatric wards, hospitals or long-term-care homes. These placements are expensive and unsuited to the individual's needs. The Committee also heard from the Ministry of Health and Long-Term Care that about 4,500 people with developmental disabilities live in long-term-care homes even though there are at present no units designated specifically for them in the homes.

No Consistent Process to Access Children's Residential Services

Both the Ministry of Community and Social Services and the Ministry of Children and Youth Services fund residential services for children with developmental disabilities, even though the latter has no dedicated residences for these children. Access to these services is managed by the Ministry of Children and Youth Services.

The segregation of roles between the Ministry of Community and Social Services and the Ministry of Children and Youth Services regarding children's residential services is confusing; one ministry is responsible for contracting, funding and managing the relationship with service providers, and another ministry is responsible for handling complaints, and licensing and inspecting those service-provider premises. Confusion can arise over who is accountable for the overall delivery of children's residential services.

We found that there is no consistent process for accessing residential services for children. Depending on where in the province they lived, some people used a centralized access point while others went directly to a service provider. This can cause confusion for people attempting to access services and result in differences in how quickly they are served.

Furthermore, we noted there is no consistent wait-list management process for children's residential services. However, two centralized access centres for children's services in the regions we visited kept a wait list. In one region, the list included 10 children, aged 12 to 15, who had been waiting an average of 4½ months. In the other region, the wait list contained 149 people, but no data on their age or how long they had been waiting. As a result, the Ministry of Children and Youth Services was unable to accurately determine the demand for children's residential services.

Transition Process from Child to Adult Services Needs Improvement

A Provincial Transition Planning Framework was developed in 2011 to help ensure that every youth with a developmental disability has a unique transition plan upon reaching age 18, based on eligibility, assessed needs and available resources, and guided by the youth's interests, preferences and priorities.

At the time of our fieldwork, service providers and the Ministries of Community and Social Services, Children and Youth Services, and Education were developing regional protocols to formalize transition-planning responsibilities. The protocols identify the parties responsible for leading and supporting transition planning in each community and define the roles of the organizations involved. The new protocols were implemented and transition planning for young people with developmental disabilities went into effect in September 2014.

RECOMMENDATION 3

To ensure that services are administered consistently and equitably, and that those most in need receive required services, the Ministry of Community and Social Services should:

- complete timely needs assessments for all eligible individuals waiting for residential services;
- develop a consistent prioritization process across the province; and
- validate all information in the Developmental Services Consolidated Information System.

MINISTRY RESPONSE

The Ministry recognizes the need to ensure that services are administered consistently and equitably. To that end, the Ministry is working with Developmental Services Ontario (DSO) offices to improve efficiency and consistency in the existing assessment of the support-needs process. To further assist DSO offices in completing timely assessments for individuals and their families, the Ministry will be increasing the number of assessors in each office by the end of 2015, by a total of 37. These steps will help to reduce the backlog and wait times for assessments.

The Ministry is building on the work of the existing community prioritization processes to promote greater consistency and increased fairness through the introduction of a provincially consistent prioritization tool and process. Implementation of the tool began with the Passport program in October 2014, and will be evaluated prior to continuing implementation for residential services.

The Ministry recognizes that more work needs to be done to further advance the provincial information technology system (DSCIS), and will continue to make improvements. An implementation plan is in place to validate residential wait-list information and upgrade the DSCIS. Validation of residential wait-list information is a current priority and is targeted for completion in 2015/16. Planned upgrades to the DSCIS include a system update to enable DSO offices to match individuals to available resources identified by service agencies. Specifically, for the first time, there will be a provincial database linking DSO offices and service agencies to match individuals to resources. The Ministry is targeting implementation by the end of 2015.

RECOMMENDATION 4

The Ministry of Children and Youth Services should develop a policy that is applicable to all children's residences that are funded by the government of Ontario. This would include implementing a consistent access mechanism and wait-list management process across the province for residential services for children and youth with developmental disabilities.

MINISTRY RESPONSE

The Ministry of Children and Youth Services funds and licenses a variety of residential settings for children and youth, including those with special needs such as developmental disabilities.

The government has embarked on a Special Needs Strategy that is aimed at improving outcomes for children and youth, simplifying access and improving service experiences for families. One element is co-ordinated service planning for families of children and youth with multiple and/or complex needs who require a variety of services so that they have a single co-ordinated service plan that takes into account all of their services.

Simultaneously, the Ministry of Children and Youth Services is in the early stages of planning to reform the oversight of all government-funded residential services for children.

The Ministry welcomes the findings of the Auditor General in this regard and will incorporate the findings and the associated recommendation as it implements its plans to improve services for Ontario's children and youth with special needs.

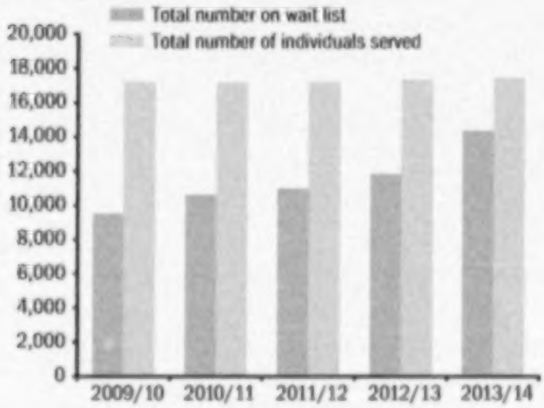
Wait Management

Wait Information Not Tracked Consistently Across the Province

According to ministry data, almost as many people were waiting for services as had been served in the past year. **Figure 6** shows that between 2009/10 and 2013/14, the number of people across the province waiting for adult residential services increased

Figure 6: People Waiting for Residential Services vs. People Served, 2009/10–2013/14

Source of data: Ministry of Community and Social Services



50%, from 9,500 to 14,300. Of these, 6,900 were waiting for group homes, followed by those waiting for supportive independent living (5,000). Meanwhile, during the same period, the number of people served in adult residences increased only 1%, from 17, 200 to 17,400. Ideally, it would be more useful to compare changes in capacity (that is, the maximum number of people who can be served on a daily basis), but the Ministry lacks complete data for the five-year period.

We had some concerns about the wait information, in particular:

- An individual requesting placement in more than one type of residential service setting might be counted twice on the wait list. In one region we visited, the DSO office reported the unique number of people waiting for a bed, but the other two we visited reported the duplicate count. As of March 2014, the wait lists for those two regional DSO offices were overstated by a total of 830 people.
- The Ministry does not track and analyze wait-time information. Tracking and disclosing wait times by region and type of residential setting would increase transparency and accountability. In contrast, the overall median wait times for long-term-care homes are published once a year, and one Ontario Community Care Access Centre we visited during our 2012 audit of the long-term–care-home placement process also posts wait times on its website for each of its homes.

Wait-list information is reported to senior management every three months (once each quarter). Since 2011, the wait-list information provided to senior management has been based on data collected from the DSO offices. This data indicated that 14,300 people were waiting for residential service as of March 31, 2014. In September 2014, the Ministry revised the number of people waiting for residential services as of March 31, 2014, in the report to senior management using wait-list information from its Developmental Services Consolidated Information System (DSCIS). As noted earlier, this is a database the Ministry developed in 2011 to combine existing client information maintained by the various service providers, and to which it asked service providers at the time to migrate their data. However, the Ministry has not been using the DSCIS because the system is not fully functional and because the Ministry has not yet finished validating the data in it. According to the DSCIS, the number of people waiting for residential services as of March 31, 2014, was 12,800, not 14,300. Accordingly, the revised report to ministry senior management included a disclaimer that the Ministry could neither guarantee the accuracy of the DSCIS information nor explain why the DSCIS and DSO office numbers were different.

Deficiencies Noted in Managing Vacancies

When a vacancy opens, the service provider is required to inform its regional DSO office, which begins identifying people for placement based on the regional prioritization and matching process. The Ministry does not have a policy on how soon after a bed becomes vacant an agency should notify the DSO office. In the three regions we visited, the time ranged from immediately to five days.

Other concerns with how vacancies were managed are as follows:

- The Ministry requires agencies to provide an explanation when a vacancy has not been filled within 60 days. We noted that the average time to fill a vacancy at the three regions we visited ranged from 92 to 128 days in 2013/14. We also noted there are no mandated timeframes for an applicant to accept a placement offer, or for when they must move in after accepting. In two of the regions we visited, it took up to two months on average to find a person to take the vacancy, and up to an additional 42 days from the time a bed was offered and accepted for the person to move in permanently. The DSO office in the third region did not keep comparable data. The Ministry told us that long placement times are the result of individuals moving in on a transitional basis (for example, just on weekends for a full month before moving in permanently), and depend on the person's comfort level and the family's readiness for transition. In contrast, the Ministry of Health and Long-Term Care has legislated timelines for long-term-care homes: a person has one day to decide whether to accept a placement offer, and then five days to move in.
- The number of beds that become available every year is small in comparison to the number of people waiting. For the two residential types that house the most people (group homes and supported independent living arrangements), we compared the number of people waiting for a bed with the number of beds that became available in the year, and estimated that at that rate, it could take 22 years to place everyone now on a wait list, as shown in **Figure 7**. However, it could take 41 years to clear the Toronto region wait list for group homes and the South East region wait list for supported independent living arrangements.
- Furthermore, the Ministry has not assessed whether people's needs on the wait list will be met by the current mix of residential service types. Therefore, the problem of not being able to place individuals with the highest needs may be perpetuated.

Limited Action to Date on Recommendations of Housing Study Group

In September 2013, the Housing Study Group released a report called *Ending the Wait: An Action*

Figure 7: Comparison of Wait List and Vacancies, 2013/14

Source of data: Ministry of Community and Social Services

	Group Homes			Supported Independent Living		
Region	# of People Waiting (March 31, 2014)	# of Vacancies (2013/14)	# of Years to Clear Wait Lists at this Rate	# of People Waiting (March 31, 2014)	# of Vacancies (2013/14)	# of Years to Clear Wait Lists at this Rate
Central East	1,327	45	29	849	41	21
Central West	643	48	13	252	19	13
Eastern	696	23	30	671	23	29
Hamilton Niagara	857	44	19	648	43	15
North East	231	37	6	224	31	7
Northern	267	11	24	330	15	22
South East	165	15	11	122	3	41
South West	1,131	46	25	1,028	27	38
Toronto	1,621	40	41	928	25	37
Province	**6,938**	**309**	**22**	**5,052**	**227**	**22**

Agenda to Address the Housing Crisis Confronting Ontario Adults with Developmental Disabilities. The group was composed of government policy planners and representatives from service providers and the community, clients and family organizations.

The report discusses key barriers to housing in this sector and presents a three-year action plan. Key recommendations include:

- creating a task force to recommend and implement capacity-building initiatives beginning in 2014, and to create a method for ongoing evaluation of progress and planning;
- creating an "opportunity fund" to invite proposals designed to address the shortfall in housing for people with developmental disabilities;
- creating an inter-ministerial committee for ongoing consultation and creation of a 20- to 25-year work plan;
- obtaining a government commitment to fund housing solutions for 100% of adults with developmental disabilities whose parental caregivers are over the age of 80, and for 50% of those whose parents are over 70; and
- creating a communication strategy study group to publicize housing initiatives resulting from the agenda.

At the time of our audit, the Ministry had not yet indicated whether it endorsed the study's recommendations. By August 2014, the Ministry had appointed a chair and the membership of the Developmental Services Housing Task Force recommended by the Housing Study Group. No other progress has been made on the recommendations. Given the nature of these recommendations, they may take quite a few years to implement.

RECOMMENDATION 5

To improve the management of wait times for residential services for people with developmental disabilities, the Ministry of Community and Social Services should:

- promote consistent recording of wait information, including tracking both wait times and wait lists;
- establish guidelines for the length of time an applicant may take to accept a placement, and then to move in;
- consider making wait times public to increase transparency and accountability;
- assess, on the basis of the needs of individuals on the wait list, what the mix of residential service types should be, to enable those with the highest needs to be placed first, as practical, in the future; and
- use the Developmental Services Housing Task Force to develop alternative housing solutions to alleviate demand as quickly and cost-effectively as possible.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and recognizes the need to improve the management of wait times. The Ministry is developing system enhancement requirements for the DSCIS that will increase the Ministry's ability to collect, report and monitor wait-list information across the province. The specific enhancements will enable DSO offices to match individuals to available resources identified by service agencies. Specifically, for the first time, there will be a provincial database linking DSO offices and service agencies to match individuals to resources. The Ministry is targeting implementation by the end of 2015.

The Ministry will consider how best to share relevant service system information, including residential wait-list data, with the public.

Currently, the Ministry is working on initiatives to achieve a more consistent service system experience for individuals and families across the province, including, but not limited to, the introduction of a provincially consistent process for Urgent Response, Urgent Response Case Management, and Service System Planning. A component of this work will be the issuing of new guidelines for the management of residential vacancies in 2015/16. The guidelines will clarify roles and responsibilities for vacancy management, provide consistent definitions, and articulate key milestones and related timelines for elements of the vacancy management process, including the time allowed to successfully complete a transition to a new home.

As part of the $810-million investment in developmental services, the Ministry will be moving to multi-year residential planning. This is expected to allow communities to develop innovative housing options that better meet the needs of individuals requiring residential services. Multi-year planning will also allow the sector to build appropriate residential services for complex cases because agencies will have the time to plan over a longer period of time.

The Developmental Services Housing Task Force held its first meeting in September 2014 and will be developing a process to recommend innovative housing demonstration projects for ministry funding and evaluation. It will study emerging best practices from Ontario and other jurisdictions. The task force has a two-year mandate but is identifying innovative, sustainable solutions that can be implemented in the short term.

Quality of Service Provided

In order to help promote the health, safety and welfare of people receiving ministry-funded residential services and supports, the Ministry inspects service providers, sets requirements for staff training and requires serious occurrences to be reported regularly.

Compliance Inspections Process Needs Improvement

Providers of adult residential services must comply with a series of quality-assurance measures set out in regulation and ministry policy. An inspection checklist has been developed that incorporates the quality-assurance requirements under the law and ministry policy directives.

Until December 2010, adult residences were inspected by staff from ministry regional offices. Since then, inspections have been centralized at the Ministry's head office and are conducted by a team of six inspectors. This team is also responsible for inspecting supportive services for people with developmental disabilities, including DSO offices, which manage access to services.

In total, there are about 360 agencies delivering all types of developmental services (either residential services or supportive services) and almost 2,100 residences providing residential services. Inspections typically include a review of agency policy and procedures, board documents, and staff and resident records.

Inspectors try to assess the physical condition of a residence, the personal care provided to residents, and management of residents' personal finances. They also review whether a residence has a fire safety plan, approved by the Fire Marshal. Inspections do not include verification of quarterly service data reported to the Ministry, or the testing of expenditures to ensure compliance with the government's Broader Public Sector Expenses Directive. In addition, we reviewed a sample of inspections and found that in two-thirds of them, inspectors interviewed neither the staff providing direct care to residents, nor residents themselves.

The change to a centralized inspection process for adult residential services has created more consistency in inspections across the province, and in the reporting of inspection results. However, we had the following concerns:

- At the time of our audit, 45% of about 2,100 adult residences had not been inspected since at least 2010, as shown in **Figure 8**. Adult residences for people with developmental disabilities may go uninspected for years. From January 2011 to May 2013, the Ministry used a site-based model to select residences for

Figure 8: Inspections of Residences for Adults with Developmental Disabilities, by Calendar Year

Calculated by the Office of the Auditor General using data from the Ministry of Community and Social Services

Last Inspection Date	# of Residences	% of Total
Never inspected	541	25
Before 2011	436	20
2011	344	16
2012	464	21
2013	379	18
Total	**2,164**	**100**

inspections. Under this model, the Ministry aimed to inspect only group homes every five years. In June 2013, the Ministry switched to an agency-based model, where the aim is to have each agency inspected once every 24 to 30 months, along with a sample of residences it operates. Selection of both agencies and residences are based on criteria such as date and results of the last inspection, risk assessments, occurrences reported, and percentage of funding. Hence, there is no guarantee that every adult residence will eventually be inspected. Even where a risk-based approach is used, every residence should be inspected at least once during a defined longer-term period (for example, every five to seven years).

- Agencies get advance notice of inspections. Ministry staff informed us that they tell agencies about forthcoming inspections as a courtesy, although they do not specify which residences will be visited until the first day of inspection. Based on a sample of files we reviewed, agencies were given an average 24 days' notice before an inspection. This raises doubts about whether the agency's normal operations are accurately reflected on inspection day. The Ministry of Children and Youth Services also gives advance notice of inspections of children's residences. In contrast, the Ministry of Health and Long-Term Care conducts unannounced inspections of long-term-care homes.
- There is no distinction in the severity of non-compliance issues identified during inspections. All items of non-compliance should be addressed, but those that are more critical for the health, safety and well-being of residents and staff may require an immediate response. It was difficult to determine from inspection reports whether there was an immediate need for corrective action. For agencies inspected between June and December 2013, the number of non-compliance items ranged from one to 78 per agency, with a median of 21 items. However, because items are not coded with respect to severity, it is not possible to know whether the health and safety of residents was compromised.
- Most agencies do not take corrective action quickly enough. In June 2013, the Ministry set a target requiring agencies to correct non-compliance items within 60 days of inspection. We found that 67% of agencies inspected after June 2013 did not meet the target. For residences inspected from January 2011 to May 2013, 12% took longer than one year to address all issues of non-compliance, and 10% were still not in compliance at the time of our audit testing in March 2014.
- We found that Ministry staff did not conduct timely follow-ups to ensure that corrective action was taken. We reviewed a sample of files for residences that were still in non-compliance for at least six months following inspection, and noted that the Ministry had not performed any documented follow-up for an average of 10 months, as of March 31, 2014. When we reviewed a sample of residences that had been inspected more than once, we noted that at least four of the same non-compliance items were found in the subsequent inspections for 40% of them. In addition, the way that inspection results are recorded makes it impossible for the Ministry to analyze them in detail. For instance, inspectors specify the individual residences

they inspect, but enter only the aggregated results by agency into the system. Therefore, in cases where an agency operates multiple residences, it is not possible to relate specific inspection findings to individual residences.
- Inspection results are not made public. In contrast, the Ministry of Health and Long-Term Care requires that inspection reports detailing all findings of non-compliance be posted in a public area of the long-term-care home and provided to resident and family councils. Reports are also published on the Ministry's website to increase transparency and accountability.

Under the *Child and Family Services Act*, residences that house three or more children must be licensed annually. The Ministry of Children and Youth Services is responsible for inspecting children's residences prior to issuing a licence. We found that all children's residences funded by the Ministry of Community and Social Services with more than three children had been inspected and licensed annually as required by the Act.

RECOMMENDATION 6

To help ensure that inspections of residences contribute to the safety and security of the environments where people with developmental disabilities live, the Ministry of Community and Social Services should:

- continue to use a risk-based approach and set a maximum time allowed before lower-risk residences need to be inspected;
- conduct unannounced inspections;
- distinguish between the severity of non-compliance items and ensure appropriate and timely follow-up where significant issues are noted;
- expand inspection procedures to include verification of service data reported to the Ministry, and test compliance with Broader Public Sector Expenses Directives on a sample basis; and
- publish the results of inspection reports to increase the transparency and accountability of the process.

MINISTRY RESPONSE

The Ministry continues to strengthen its compliance inspection process and appreciates the Auditor General's recommendations. Beginning in 2015/16, the Ministry will complete inspections of each agency on an annual basis, and will target inspections of every applicable residence operated by service provider agencies in the five-to-seven year timeframe recommended by the Auditor General.

In the past, the Ministry has conducted a few unannounced inspections, in response to complaints. The Ministry supports the recommendation and will increase the number of unannounced inspections.

In summer 2014, the Ministry began work on and is now finalizing a prioritization matrix that recognizes the differing severity of compliance requirements. This matrix will determine a risk rating for all requirements and assign required follow-up actions. The Ministry will also be prescribing timelines for follow up on areas of non-compliance that build on existing provisions in legislation. Both are targeted for implementation in early 2015/16.

We appreciate the recommendation of the Auditor General and will provide direction to ministry staff to ensure compliance with the Broader Public Sector Expense Directives and to verify service level data submitted by service agencies. These will be done on a sample basis outside of the compliance inspection process.

In 2013, the Ministry began consultations with the sector regarding the public posting of inspection results and received support. Publishing results is targeted for the 2015/16 fiscal year.

Care Standards Are Few and Open to Interpretation

It is important that the Ministry set standards of care to help ensure the well-being of residents. We noted that the Ministry requires residences to follow standards for nutrition, heating and cooling, and hot-water temperatures (to prevent scalding). However, we found that many of the standards of care included in the Ministry's inspection checklist are general in nature and allow for a fair amount of agency discretion. For example, the checklist stipulates that:

- the number of support staff must be adequate, and staffing schedules should reflect 24-hour coverage for group homes and intensive support residences, but there is no requirement for a specific staff-to-resident ratio; and
- each service agency must provide assistance to residents to attend regular medical and dental appointments as needed, but it does not specify the minimum number of times (for example, once per year) a resident should be seen by a physician and dentist.

Other provinces have additional standards of care for adult residential services. For example, New Brunswick specifies staff-to-resident ratios based on the level of care of the particular residence (residences in that province are classified by the level of care they provide), bathroom-to-resident ratios, and minimum bedroom sizes. British Columbia also has requirements for the size of accommodations and the ratio of bathrooms to residents.

RECOMMENDATION 7

To help ensure the well-being of people with developmental disabilities living in Ministry-funded residences, the Ministry of Community and Social Services should establish further standard-of-care benchmarks, such as staff-to-resident ratios and the minimum number of times a year that each resident should be seen by health professionals such as physicians and dentists.

MINISTRY RESPONSE

The Ministry supports and acknowledges that better guidance and direction to the sector is required on both financial and quality-of-life expectations.

The Ministry continues to move toward individualized approaches to further our goals of social and community inclusion. As part of developing and implementing funding guidelines in 2015/16, the Ministry will embed points of reference, such as staff-to-resident ratios, to help the sector support equitable funding based on individuals' needs.

In developing standards for service agencies, the Ministry believes it is important to find the right balance between providing sufficient guidance to agencies while permitting flexibility to respond to the unique needs, preferences, and circumstances of the individuals they serve. The requirements in the Quality Assurance Measures are deliberately broad to achieve this balance in a way that provides a safe environment while recognizing that individuals need different supports to help them to live as independently as possible and become fully integrated in the community.

Some Agency Staff Lacked Required Training and Did Not Undergo Security Screening

The Ministry has mandatory training requirements for DSO employees who assess individuals' support needs and for agency staff who provide care. However, we found that some staff had not received all the required training. Specifically:

- DSO staff who perform needs assessments must successfully complete initial assessor training and a refresher course every 18 months. For 4% of DSO assessment staff, there was no documentation to show they had completed this initial training, and for 12% of staff, there was no documentation to show they had taken the required refresher course. If staff are not properly trained, applicants may be assessed inappropriately and inconsistently.

- Residential staff providing direct care are required to obtain training in a wide variety of areas, including first aid and CPR; basic needs care such as bathing, medical support and feeding; and behaviour intervention techniques. Based on information collected during compliance inspections between June 2012 and December 2013, 5% to 11% of staff sampled did not have this training.

In addition to training, the Ministry requires a background check through the Canadian Police Information Centre (CPIC), including Vulnerable Sector Screening, before residential staff who provide direct care are hired. But the Ministry does not require staff to update their CPIC checks regularly to help ensure that they pose no risk to residents. Compliance inspections conducted between June 2012 and December 2013 identified 11% of service providers failing to document whether staff and volunteers had undergone a CPIC check. Further, only one of the agencies we visited required staff to get an updated CPIC check every five years.

RECOMMENDATION 8

To help ensure that people applying for developmental services have their support needs properly assessed, and that those living in residences funded by the Ministry of Community and Social Services receive quality services, the Ministry should:

- ensure that all assessors and residential staff complete the required training; and
- ensure that all residential staff who provide direct care to residents undergo regular vulnerable sector screenings and Canadian Police Information Centre checks.

MINISTRY RESPONSE

The Ministry established policy directives, which came into effect in July 2011, setting out qualifications for assessors and service standards related to the completion of assessments of support needs. Since February 2011, the Ministry has delivered training and completed assessor qualification reviews for all assessors in the DSO offices. As of October 2014, DSO offices across the province employed over 90 active and qualified assessors, and according to ministry instructors, all assessors' qualifications are up-to-date.

The Ministry appreciates the finding and supports the recommendation regarding training for residential staff who provide support for individuals with developmental disabilities and will continue to closely monitor this area and put in place appropriate strategies.

A police record check, which includes a vulnerable sector screen, is required by the Quality Assurance Measures for all new staff members, volunteers and board members who have direct contact with persons with developmental disabilities. The Ministry supports these checks and the Auditor General's recommendation. The Ministry will assess the feasibility of requiring vulnerable sector screenings and Canadian Police Information Centre checks for agency staff on a regular basis.

Oversight of Service Providers

Governance and Accountability Process

Agencies are accountable to the Ministry for their prudent use of public funds. In turn, the Ministry must ensure that there are effective governance and accountability structures in place.

In 2012, the Ministry released a Transfer Payment Governance and Accountability Framework for community service providers. The framework refers providers to appropriate government directives for transfer-payment agencies, and outlines the accountability structures established by the Ministry as follows:

- expectations are clearly defined;

- the Ministry and service providers establish effective agreements;
- ongoing reporting and monitoring are done to determine whether agreed-upon results are achieved; and
- corrective action is taken if necessary.

Ministry Oversight Relies Heavily on Agency Self-Assessments

The Ministry relies heavily on agency self-assessments but does not routinely seek independent verification that agencies comply with accountability directives for the broader public sector. It has adopted an agency risk-based oversight approach. For example:

- Agencies must complete a risk-assessment questionnaire every two years that determines their ability to meet service-delivery objectives. Ministry staff review these self-assessments and assign a risk rating for the agency. Where risks are identified, the Ministry requires the service provider to develop an action plan to mitigate those risks. The latest risk assessments available at the time of our fieldwork were completed in 2011/12. One agency was rated high-risk, three were identified as medium-risk, and the more than 200 remaining agencies were rated low-risk. We reviewed the action plans for those rated medium- and high-risk and noted that they had all provided action plans for the risks identified, although one agency provided inadequate detail. We also noted that 11 agencies had either not completed the risk-assessment questionnaire or used an earlier version of it, and were excused from submission at the Ministry's discretion.
- In our *2011 Annual Report* audit of Supportive Services for People with Disabilities, we recommended that the Ministry consider having the agencies' board chairs attest annually to complying with the Broader Public Sector Expenses Directive regarding travel, meal and hospitality expenses. The Ministry implemented our recommendation and, starting with the 2011/12 fiscal year, requires all transfer-payment agencies receiving at least $10 million in provincial funding to report annually on whether they have complied with the requirements of the *Broader Public Sector Accountability Act, 2010* and its directives regarding expenses, perquisites and procurement. Each agency must complete and return to the Ministry an annual attestation of compliance signed by both its chief executive officer and the chair of its board, and indicate the corrective action it will take for any issues of non-compliance. For the 2012/13 fiscal year, the Ministry received attestations of compliance from all developmental service agencies that were required to submit. We noted that 13% of these agencies indicated they were not in compliance with at least one requirement. The agencies in the three regions we visited all submitted action plans, but we noted that only two regions followed up to ensure that corrective action was taken.

In 2013, the Ministry's internal audit team examined travel, meal and hospitality expenditures at developmental service agencies, most of which provided residential services, and concluded that the Ministry needs to improve controls to ensure that agencies comply with the Broader Public Sector Expenses Directive.

The internal auditors found that one-third of sampled agencies that received more than $10 million in funding and two-thirds of sampled agencies that received less than $10 million in funding did not comply with the spirit of the directive. Internal audit also noted that although some regions took action to educate agency staff on governance, these actions were not implemented consistently across the regions. Accordingly, even though some board Chairs annually attest that their agencies are complying with the government's expenditure directives for the broader public sector, there was no assurance that all agencies are in compliance.

The Ministry does not involve itself in the day-to-day operations of the agencies it funds, so we enquired about the amount of direct ministry involvement with agency boards of directors. One of the three agencies we visited informed us that a ministry representative attends board meetings on a regular basis. That ministry representative told us that attending board meetings helps to understand agency operations, processes and decision-making, and provides an opportunity to tell the board about ministry direction regarding new initiatives and expectations around governance and accountability. For these reasons, we believe greater involvement by ministry staff at agency board meetings would be beneficial.

RECOMMENDATION 9

To help ensure the prudent use of government funds, and improve agency governance and accountability processes, the Ministry of Community and Social Services should:

- ensure completion of all agency risk assessments;
- ensure completion of all action plans to correct deficiencies noted during risk assessments and annual attestation of compliance;
- conduct periodic independent verification to obtain assurance that agencies comply with the government's directives for the broader public sector; and
- encourage ministry staff to attend agency board meetings.

MINISTRY RESPONSE

The Ministry appreciates the findings of the Auditor General and will work with service agencies to require completion of all risk assessments and confirm completion of all action plans to correct deficiencies.

The Ministry is revising its risk assessment process for all its service agencies in 2015/16 to further enhance accountability and oversight, and improve service agencies' compliance with directives and policies for the broader public sector. This new model will include an independent risk assessment rating by ministry staff.

The Ministry is exploring the feasibility of including periodic independent verification to obtain assurance that a service agency has taken appropriate action to mitigate risk. To address agency non-compliance, the Ministry is working towards a more consistent approach in utilizing progressive escalation options based on ministry policy regarding sanctions.

Agencies are governed by independent boards of directors. As part of the regular transfer payment business process, ministry staff attend agency board meetings when it is appropriate. The Ministry recognizes the importance of communicating directly with boards of agencies on a regular basis and will ensure that this expectation is communicated to ministry staff. Over the past two months, the Ministry has hosted province-wide sessions with agency staff and boards of directors on the new Developmental Services Investment Strategy and on the ongoing transformation of the sector.

Deficiencies in Monitoring Reporting Requirements

The Ministry has an annual service contract with each agency outlining the services to be provided, the amount of annual funding and the service-level targets to be achieved. Agencies must report quarterly on expenditures and service levels, and reconcile expenditures at year-end.

Quarterly Reporting

To help hold agencies accountable for expenditures and service delivery during the year, the Ministry requires them to submit quarterly year-to-date reports comparing budgeted expenditures and service-level targets to actual results. Agencies must explain any significant variances.

Based on quarterly reports submitted in the 2012/13 fiscal year for a sample of agencies, we noted the following concerns:

- The Ministry does not have adequate procedures in place to verify the accuracy or reasonableness of the data received from agencies, which could lead the Ministry to make decisions based on unreliable data. For instance, we saw no evidence that the Ministry periodically verifies selected data against source records. This verification could be conducted during agency inspections. In addition, at two of the three regional offices we visited, ministry staff did not compare fourth-quarter year-to-date results to audited financial statements or the year-end reconciliation report; nor does the Ministry analyze the service-level data for reasonableness. As a result, we noted cases where data was missing or incorrect. For example, 23% of agencies reported more "resident days" than "bed days," which is impossible because each resident requires a bed.
- As with the findings of our last audit in 2007, the information collected was not sufficiently detailed to allow useful analysis of program expenditures. We found that the Ministry does not collect information necessary to determine whether some or all of the agencies could provide the same services for less to more people. For example, the Ministry collects data on the number of people served during the reporting period by agency and by service type—information that by itself has little value. It would be more useful if the Ministry compared residences that are similar in type and capacity. The Ministry's ability to analyze performance and service delivery is also hindered by the fact that the data submitted reflects residential services at the agency level, not at individual residences.

As part of a project in 2013 to examine unit costing and cost drivers, the Ministry's consultant reported that data anomalies and quality issues affected its ability to analyze the information. For example, the consultant raised concern about service-contract data irregularities such as the number of individuals served being too high or too low relative to the size of funding.

Year-end Reconciliation Process of Limited Usefulness

In order to confirm whether Ministry funding was used for its intended purpose, agencies must submit audited financial statements, supplemental financial information segregated by service provided, and a reconciliation of agency spending with the amount of ministry funding provided. The process is intended to identify inappropriate or ineligible expenditures, and any surpluses to be recovered.

Based on our review, we made the following observations:

- The reconciliation did not provide enough information on the various costs of direct care. For instance, it provided the cost for staff training and programming, but not for food, nursing or personal-care staff.
- Overall, it was not possible to verify the breakdown of expenditures in the reconciliation reports because the audited financial statements and supplemental segregated financial information were not at the same level of detail.

RECOMMENDATION 10

In order to better hold agencies accountable for the residential services they provide to people with developmental disabilities, the Ministry of Community and Social Services should:

- ensure that agencies submit all required data;
- periodically validate the accuracy of information submitted; and
- require that quarterly reports provide information for individual residences as well as for agencies, to enable better cost comparisons among entities providing similar services; and

- provide guidance on useful expenditure data to be included in the audited financial statements and supplemental segregated financial information.

MINISTRY RESPONSE

The Ministry appreciates the findings of the Auditor General and acknowledges the importance of validating data submitted by service agencies for greater accountability and decision-making. The Ministry will take action to strengthen direction to ministry staff to ensure that agencies submit all required data and will periodically validate the accuracy of the information submitted.

The Ministry is enhancing service data integrity through implementation of data validation tools. Specifically, the 2014/15 budgeting package to be completed by service agencies has built-in validation rules to flag incomplete data. This tool will assist ministry staff to follow up with service agencies on the completeness of the budget. The tools are intended to identify data anomalies at both the agency and aggregate level.

The Ministry is also developing a business intelligence tool that will integrate data sets to identify trends, improve analysis and support decision making. The Ministry will continue to explore ways to improve the quarterly reporting process. In fall 2014, the Ministry began building internal capacity to enhance oversight and monitoring of the developmental services sector.

The Ministry supports the findings of the Auditor General and will consider what expenditure data is useful and should be included in the audited financial statements and supplemental segregated financial information.

Serious Occurrence Reporting Needs Improvement

Residences must report all serious incidents—death, serious injury or abuse—to the Ministry in a defined sequence as follows:

- An initial notification report must be submitted to the regional ministry office within 24 hours of the service provider becoming aware of an incident or of deeming an incident to be serious, or within three hours of the service provider becoming aware of an incident if emergency services are required or the incident is likely to bring significant media attention.
- Within seven business days of the initial notification, an inquiry report must be submitted that details the current status and any further actions to be taken.

We tested a sample of serious occurrence reports submitted in 2013 in the three regions we visited, and noted that 18% of initial notification reports and 16% of inquiry reports were submitted late. However, all instances of alleged, witnessed or suspected abuse in our sample were reported to police immediately, as required. As well, the Ministry was immediately notified of the outcome of all missing-person incidents, as required.

Information from serious occurrence reports is entered manually into the Ministry's Serious Occurrence System, which has eight categories, as listed in **Figure 9**. The system combines all serious occurrences for developmental services, rather than breaking them down by residential and supportive services, so we extracted those incidents that occurred in Ministry-funded residences for our analysis.

In the six years from 2008 to 2013, we noted that the highest number of incidents reported across the province on average has been the use of physical restraints (48%), followed by complaints by or about a resident (27%). The categories that increased the most since 2008 were incidents of alleged abuse or mistreatment (92%), complaints

Figure 9: Serious Occurrences at Residences for Adults with Developmental Disabilities, 2008–2013

Calculated by the Office of the Auditor General using data from the Ministry of Community and Social Services

Nature of Serious Occurrence	2008	2009	2010	2011	2012	2013	Average	%	% Change from 2008 to 2013
Use of physical restraint	2,951	3,593	3,241	3,260	2,711	2,019	2,963	48	(32)
Complaint made by or about client	1,115	1,437	1,352	1,931	2,025	1,967	1,638	27	76
Serious injury	624	573	527	509	486	599	553	9	(4)
Complaints about service standards	368	387	383	332	291	197	326	5	(46)
Alleged abuse/ mistreatment	235	221	245	393	367	451	319	5	92
Death	192	187	182	209	192	201	194	3	5
Missing client	77	116	124	131	146	123	120	2	60
Disaster on premises	73	66	41	65	51	78	62	1	7
Total	**5,635**	**6,580**	**6,095**	**6,830**	**6,269**	**5,635**	**6,174**	**100**	**0**

by or about a resident (76%), and missing persons (60%). We found no evidence of Ministry action to address either the high incidence of, or the increase in, certain types of occurrences.

Based on our review of serious occurrence reports, we identified issues that diminish the usefulness of the information. With respect to the Serious Occurrence System, for example, we noted problems with data accuracy as follows:

- The total number of serious occurrences reported for 2012 and 2013 was understated. In April 2014, for example, one regional office we visited had a huge backlog of more than 360 serious-occurrence notifications that had not yet been entered into the system. The Ministry's head office said it was unaware of this backlog.
- The System contained incomplete information for about 540 serious occurrences in 2012 and 690 in 2013.
- When an incident involves more than one resident, agencies sometimes submit separate reports for each resident involved, thus overstating the number of incidents.
- Some types of serious occurrences were reported in different categories. For instance, medication errors that caused injury were reported in a separate sub-category under the "serious injury" category, while medication errors that didn't result in injury were reported in "complaints about service standards". This means the Ministry would be unable to identify those agencies with frequent medication errors, whether resulting in a serious injury or not, unless it read every serious occurrence reported under "complaints about service standards."
- Some of the serious occurrence categories are not detailed for meaningful trend analysis across agencies. For instance, the "complaints made by or about a client" category includes complaints relating to incidents as widely varied as hospital stays, behavioural problems and police interventions. Bundling such different causes for complaints into a single category makes it difficult to identify trends for specific issues and any corrective actions needed. We found no evidence that the Ministry's head office or regional offices perform any analysis of serious occurrence reports to identify anomalies and systemic issues, or to inform regional or head-office decision-making. For

example, service providers are required to submit annual summary reports to their regional ministry office. All three regions we visited collect the annual reports required from service agencies, but at two of the regions, there was no evidence of review, analysis, or reconciliation of the annual summary reports to the individual incidents reported during the year.

RECOMMENDATION 11

In order to improve the usefulness of the serious occurrence reporting process, the Ministry of Community and Social Services should:

- ensure that serious occurrence reports are entered into its data system on a timely basis;
- refine the categories and promote consistent reporting;
- reconcile annual serious occurrence summary reports from service providers with occurrences reported throughout the year to ensure completeness; and
- analyze serious occurrences to identify anomalies and systemic issues, and to inform decision-making.

MINISTRY RESPONSE

The Ministry took immediate steps to eliminate the backlog in entering serious occurrence reports identified by the Auditor General, and will introduce ongoing monitoring to ensure that the system remains current.

In 2013, a multi-year, joint business improvement project was begun to identify common business practices and supporting processes across the three operations divisions in the Ministry and the Ministry of Children and Youth Services responsible for serious occurrence reporting. This work has already led to the development of proposed common reporting categories that will meet all legislated requirements and will simplify the reporting requirements and process for service agencies, while also promoting consistency. Reporting categories will be reviewed in the future and refined further if necessary. Once implemented, the revised business processes and practices will allow the ministries to further analyze serious occurrence reporting data that will better support decision making. Testing is targeted for 2015/16.

In the longer term, this work will include the integration of information that will enable the Ministry to reconcile annual serious occurrence reports from service agencies, and will increase its capability to analyze occurrences and to readily identify trends or anomalies.

The Ministry acknowledges that improvement is required in this area and will invest in staff to ensure that they have the required training and tools.

Appendix—July 2014 Recommendations of the Select Committee on Developmental Services Most Relevant to Residential Services and Supports

Prepared by the Office of the Auditor General of Ontario

1. A new Inter-Ministerial Committee on Developmental Services (IMCDS) be created with the mandate of implementing the recommendations in this report.

The Minister of Community and Social Services be answerable for the progress of the IMCDS and the implementation of the recommendations in this report. In addition to the Minister of Community and Social Services, the IMCDS be comprised of the ... [eight Ministers and the Attorney General].

The IMCDS convene immediately and as its first task eliminate all waitlists for developmental services and supports within 12 months, and outline an achievable plan, including goals and timeframes, for the implementation of the other recommendations in this report.

...

3. As system navigators, the DSOs must work closely with youth developmental service providers so that young adults are seamlessly connected to transitional and long-term support before they age out of the school system.

4. As part of the realigned DSO mandate, the Quality Assurance Measures (QAM) include evaluations of efficiency and client-centred effectiveness, and a new mechanism be established for public reporting of regular Quality Assurance reviews.

...

7. The Ministry of Community and Social Services resolve operational issues with the provincial database immediately and provide appropriate training to DSO staff in use of the database.

8. Comprehensive data related to the demand for and provision of developmental services from across Ministries, DSOs, and service agencies be collected, harmonized, and shared within and beyond the sector.

9. The annual collection of data from the entire province (especially northern and remote communities) specifically include the following:
   - the number of adults with developmental disabilities;
   - the number of adults with a dual diagnosis;
   - the number of children with developmental disabilities;
   - the number of children with a dual diagnosis;
   - the length of waitlists for specific services and supports;
   - the number of people with developmental disabilities or dual diagnosis who are incarcerated;
   - the number of people with developmental disabilities inappropriately housed (for example, in hospital or long-term care beds);
   - the number of "abandonment" cases; and
   - the cultural and linguistic diversity needs of the province.

...

18. Best practices for staffing ratios in long-term care and group homes be evaluated to ensure the safety of residents and staff.

...

20. Capacity for providing care be built that meets the specific needs of dually diagnosed individuals through increased programs and services, and professional training of primary care, dental care, and direct service providers.

...

39. The recommendations from the *Ending the Wait** report be fast-tracked.

40. The Housing Task Force collaborate with the IMCDS, Infrastructure Ontario, municipalities across the province, and concerned individuals, families, and community groups.

41. The [Housing] Task Force begin work immediately to explore innovative, individualized, affordable, and flexible family- and community-led housing solutions for persons with developmental disabilities and/or a dual diagnosis, with a strong focus on the specific housing needs of older adults. This includes

a) developing both short-term and long-term supported housing models;
b) developing support and capital funding for purchase and ongoing maintenance of existing residences; and
c) developing successful pilot programs for supported housing.

...

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* *Ending the Wait: An Action Agenda to Address the Housing Crisis Confronting Ontario Adults with Developmental Disabilities* is a report that was released in September 2013 by the Housing Study Group, comprised of government policy planners and representatives from stakeholder groups.

Chapter 3

Ministry of Energy

Section

3.11 Smart Metering Initiative

Background

In April 2004, the Ontario government announced a plan to reduce energy consumption in the province by creating a culture of conservation. One aspect of the plan was the provincial Smart Metering Initiative (Smart Metering)—the first and the largest smart-meter deployment in Canada—to install new "smart" electricity meters throughout the province to measure both how much and when electricity is used. The new meters would make it possible to introduce time-of-use (TOU) pricing to encourage ratepayers to shift their electricity use to times of lower demand. Smart Metering reflected the intention of the Ministry of Energy (Ministry) to manage demand for electricity in Ontario so as to more efficiently use existing power-generating capacity in the province while reducing reliance on out-of-province power purchases.

The Ministry set aggressive Smart Metering implementation targets, including an interim goal of 800,000 smart-meter installations by 2007 and complete coverage for all residential and small-business ratepayers by 2010. Entities involved in Smart Metering included the Ministry, the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and Ontario's 73 local electricity distribution companies, including Hydro One. Key roles and responsibilities of each entity are summarized in **Figure 1**, while **Figure 2** shows key events in implementation of Smart Metering.

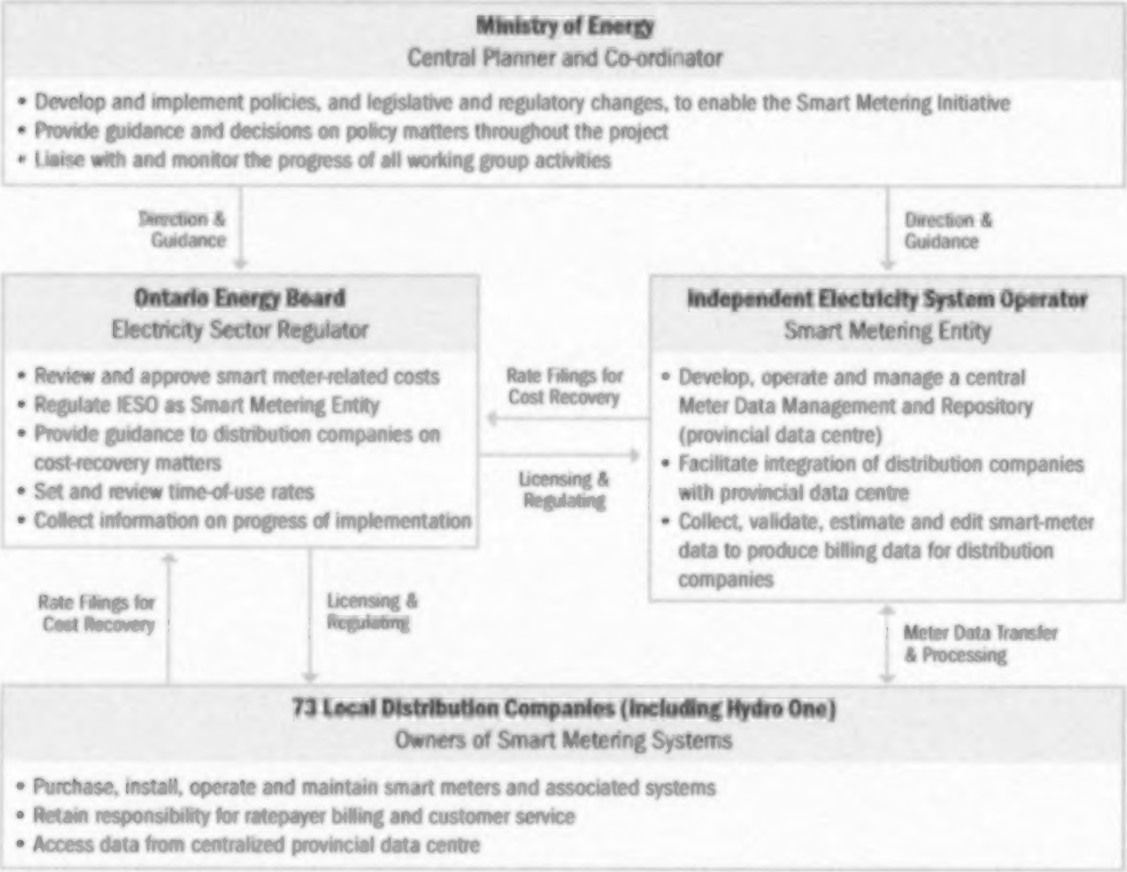
As of May 2014, there were about 4.8 million smart meters installed across Ontario, covering almost all residential and small-business ratepayers, and accounting for 45% of all electricity consumed in the province (large commercial and industrial users account for the remaining 55%). Smart meters resemble conventional meters, but differ with respect to how consumption data is displayed, measured, recorded and communicated, as illustrated in **Figure 3**.

Smart meters are the base infrastructure for developing a smart grid, which is the application of information and communications technology to improve the functioning of the electricity system and optimize the use of natural resources to provide electricity. In the *Electricity Act, 1998*, the smart grid and its objectives are set out as the information-exchange systems and equipment used together to improve the flexibility, security, reliability, efficiency and safety of the power system, particularly for the purposes of increasing renewable generation; expanding provision of price information to electricity customers; and enabling innovative energy-saving technologies.

Under TOU pricing, electricity rates charged are highest during the day, but drop at night, on

Figure 1: Key Roles and Responsibilities of Entities Involved in the Provincial Smart Metering Initiative

Prepared by the Office of the Auditor General of Ontario


Ministry of Energy
Central Planner and Co-ordinator
• Develop and implement policies, and legislative and regulatory changes, to enable the Smart Metering Initiative
• Provide guidance and decisions on policy matters throughout the project
• Liaise with and monitor the progress of all working group activities
Direction & Guidance
Direction & Guidance
Ontario Energy Board
Electricity Sector Regulator
• Review and approve smart meter-related costs
• Regulate IESO as Smart Metering Entity
• Provide guidance to distribution companies on cost-recovery matters
• Set and review time-of-use rates
• Collect information on progress of implementation
Rate Filings for Cost Recovery
Licensing & Regulating
Independent Electricity System Operator
Smart Metering Entity
• Develop, operate and manage a central Meter Data Management and Repository (provincial data centre)
• Facilitate integration of distribution companies with provincial data centre
• Collect, validate, estimate and edit smart-meter data to produce billing data for distribution companies
Rate Filings for Cost Recovery
Licensing & Regulating
Meter Data Transfer & Processing
73 Local Distribution Companies (Including Hydro One)
Owners of Smart Metering Systems
• Purchase, install, operate and maintain smart meters and associated systems
• Retain responsibility for ratepayer billing and customer service
• Access data from centralized provincial data centre

weekends and holidays. The combination of smart meters and TOU pricing was expected to encourage electricity conservation and reduce demand during peak times by providing ratepayers with information and incentives to manage their electricity use by:

- moving consumption from peak to off-peak times (for example, running the dishwasher or dryer at night rather than in the afternoon); and
- reducing consumption during peak times (for example, setting the air conditioner a few degrees warmer on summer afternoons).

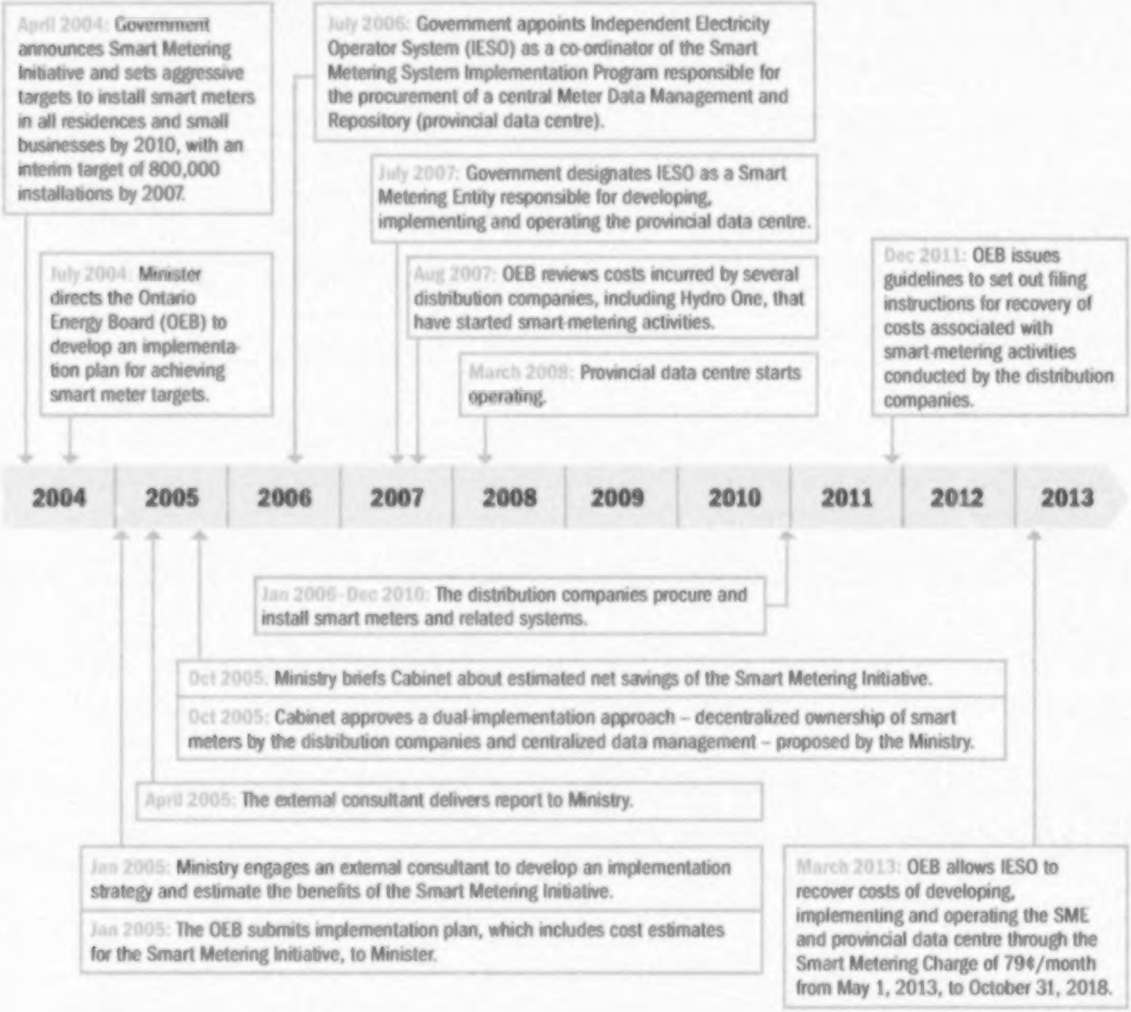
The Ministry set several targets to reduce peak electricity demand: a 1,350MW reduction by 2007; a further 1,350MW drop by 2010; and an additional 3,600MW reduction by 2025. The potential reduction in peak demand was intended to lighten the burden on electricity infrastructure, which in turn could reduce the need to build new power plants, expand existing ones, or enter into additional power-purchase agreements. It was also expected to help bring about the closing of coal-fired power plants, which were typically only used during periods of peak demand.

Audit Objective and Scope

Our audit objective was to assess whether effective systems and procedures were in place to:

Figure 2: Timeline of Key Events Relating to Implementation of the Provincial Smart Metering Initiative

Prepared by the Office of the Auditor General of Ontario



April 2004: Government announces Smart Metering Initiative and sets aggressive targets to install smart meters in all residences and small businesses by 2010, with an interim target of 800,000 installations by 2007.

July 2004: Minister directs the Ontario Energy Board (OEB) to develop an implementation plan for achieving smart meter targets.

July 2006: Government appoints Independent Electricity Operator System (IESO) as a co-ordinator of the Smart Metering System Implementation Program responsible for the procurement of a central Meter Data Management and Repository (provincial data centre).

July 2007: Government designates IESO as a Smart Metering Entity responsible for developing, implementing and operating the provincial data centre.

Aug 2007: OEB reviews costs incurred by several distribution companies, including Hydro One, that have started smart-metering activities.

March 2008: Provincial data centre starts operating.

Dec 2011: OEB issues guidelines to set out filing instructions for recovery of costs associated with smart-metering activities conducted by the distribution companies.

Jan 2006–Dec 2010: The distribution companies procure and install smart meters and related systems.

Oct 2005: Ministry briefs Cabinet about estimated net savings of the Smart Metering Initiative.

Oct 2005: Cabinet approves a dual-implementation approach – decentralized ownership of smart meters by the distribution companies and centralized data management – proposed by the Ministry.

April 2005: The external consultant delivers report to Ministry.

Jan 2005: Ministry engages an external consultant to develop an implementation strategy and estimate the benefits of the Smart Metering Initiative.

Jan 2005: The OEB submits implementation plan, which includes cost estimates for the Smart Metering Initiative, to Minister.

March 2013: OEB allows IESO to recover costs of developing, implementing and operating the SME and provincial data centre through the Smart Metering Charge of 79¢/month from May 1, 2013, to October 31, 2018.

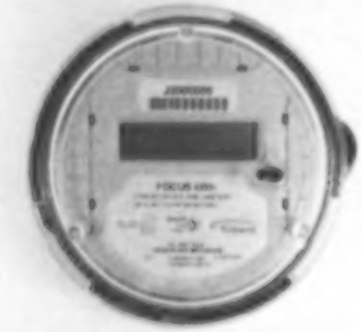
- ensure that the Smart Metering Initiative (Smart Metering) was planned, implemented and managed economically and efficiently, and in compliance with applicable policies and requirements; and
- measure and report on whether the objectives of Smart Metering were met in a cost-effective way.

Senior management at the Ministry of Energy (Ministry), the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) reviewed and agreed to our objective and associated audit criteria. We conducted this audit from October 2013 to May 2014.

In conducting our audit, we reviewed applicable legislation, regulations, policies, studies and other documents; analyzed electricity consumption and billing data; and interviewed appropriate staff at the Ministry, the IESO and the OEB. We surveyed 60 of Ontario's 73 distribution companies, with a response rate of over 70%, and interviewed staff from the remaining 13 distribution companies, including Hydro One, the only distribution company owned by the province. **Appendix 1** contains the

Figure 3: Comparison of Smart Meter and Conventional Meter

Prepared by the Office of the Auditor General of Ontario

	Smart Meter	Conventional Meter
		
Display	Digital meter with numerical display	Analog meter with spinning dials
Measure	How much and when electricity is used (typically hourly with date and time stamp)	How much electricity is used over a billing period (typically one or two months)
Recording	Automated meter reading: meters send data electronically to distribution companies through a wireless network*	Manual meter reading: distribution company staff physically visit ratepayer premises to record data
Communication	Two-way communication between meters and distribution companies*	No communication capability
Pricing	Time-of-use pricing (a three-tiered rate structure: on-peak, mid-peak, and off-peak) to reflect changing electricity costs throughout the day	Two-tiered pricing, with one rate applied to consumption up to a threshold and a second rate for electricity consumed in excess of this threshold

* See Figure 11 for data flow between the distribution company's smart-metering system and the IESO's provincial data centre.

questions posed to the distribution companies we interviewed and surveyed, and summarizes their responses. We also reviewed data and studies from the Ontario Power Authority, which has been involved in co-ordinating and assessing province-wide energy conservation efforts, including time-of-use (TOU) pricing enabled by smart meters. As well, we met with the Electricity Distributors Association, which represents all distribution companies across the province. In addition, we conducted research on smart-metering programs in other jurisdictions to identify best practices, and we engaged on an advisory basis the services of an independent expert with knowledge of smart metering.

Summary

The Ontario government's Smart Metering Initiative (Smart Metering) is a large and complex project that required the involvement of the Ministry of Energy (Ministry), the Ontario Energy Board (OEB), the Independent Electricity System Operator (IESO), and 73 distribution companies, including Hydro One. Our audit found that Smart Metering was rolled out with aggressive targets and tight timelines, without sufficient planning and monitoring by the Ministry, which had the ultimate responsibility to ensure that effective governance and project-management structures were in place to oversee planning and implementation. As yet, many of the anticipated benefits of Smart Metering

have not been achieved and its implementation has been much more costly than projected.

Our report highlights the difficulties that have been experienced in rolling out Smart Metering, which represents an initial step towards creating a smart grid—using information and communications technology to improve the functioning of the electricity system and optimize the use of natural resources to provide electricity. We hope that lessons learned from implementing smart meters can be applied to the government's ongoing efforts to develop a smart grid in Ontario.

Some of our key observations related to Smart Metering are as follows:

Decision to Mandate Smart Metering Not Supported by Appropriate Cost-benefit Study

The government announced Smart Metering in April 2004, and shortly thereafter the Minister of Energy issued a directive to the OEB under the *Ontario Energy Board Act, 1998*. The directive required the OEB to develop an implementation plan to achieve the government's targets of 800,000 smart-meter installations by 2007 and complete coverage for all residential and small-business ratepayers by 2010. The Ministry did not complete any cost-benefit analysis or business case prior to making the decision to mandate the installation of smart meters. This is in contrast to other jurisdictions, including British Columbia, Germany, Britain and Australia, which all assessed the cost-effectiveness and feasibility of their smart-metering programs. As well, even though the electricity market in Ontario continued to change, the Ministry never adjusted the smart-meter implementation plan.

Subsequent Cost-benefit Study Flawed

After the government announced the rollout of Smart Metering in April 2004, the Ministry prepared a cost-benefit analysis of Smart Metering, and submitted it to Cabinet in October 2005. However, the analysis was flawed; its projected net benefits of approximately $600 million over 15 years were significantly overstated by at least $512 million because it excluded an annual net increase in the projected operating costs of distribution companies. In other words, the projected net benefits should have been reflected as only $88 million over 15 years.

Smart Metering Costs to Date Exceed Projected Costs and Benefits

The Ministry has neither updated the projected costs and benefits of Smart Metering, nor tracked its actual costs and benefits, to determine the actual net benefits being realized. Up to the end of 2013, our analysis shows that total smart metering-related costs incurred only by the distribution companies had already reached $1.4 billion—well in excess of the Ministry's initial total projected costs of $1 billion. When costs of the Ministry, the OEB and the IESO are included, we noted that total costs relating to implementation of Smart Metering had reached almost $2 billion at the time of our audit. Additional costs are expected in the future because some distribution companies had not yet incorporated all of their implementation costs into their charges to ratepayers (these additional costs will be subject to OEB review and approval). As well, the benefits of Smart Metering in reducing distribution companies' operating costs and reducing electricity bills to ratepayers were so far limited: Of the distribution companies we consulted, 95% said they realized no savings and their operating costs actually rose, and over half said they received a high volume of ratepayer complaints about "increased bills with no savings."

Significant Smart Metering System Development and Integration Challenges Encountered

In other jurisdictions, mass deployment of smart meters was carried out by only a few distribution companies, or even just one. The challenge in Ontario was that 73 distribution companies were each separately responsible to purchase, install, operate and maintain smart meters, as well as to bill ratepayers. This made it difficult to ensure a cost-effective implementation of Smart Metering. Three-quarters of the distribution companies we consulted ranked data management and system integration as one of the top three challenges of Smart Metering, and 83% said it was difficult and costly to integrate their systems with the provincial data centre. There have been many system upgrades, including changes made in order for Ontario to comply with Measurement Canada's billing disclosure requirements after smart meters were installed.

Peak-demand Reduction Targets Not Met

The purpose of Smart Metering was to enable time-of-use (TOU) pricing, which was expected to reduce electricity demand during peak periods. The Ministry set several targets to reduce peak electricity demand (a 1,350MW reduction by 2007, a further 1,350MW drop by 2010, and an additional 3,600MW reduction by 2025). However, the initial target of reducing peak demand by 1,350MW was irrelevant to Smart Metering anyway because it was supposed to be achieved by 2007, three years before full installation of smart meters was to be completed. With respect to the second target of an additional 1,350MW reduction by 2010, peak electricity demand did not fall, but actually rose slightly by about 100MW between 2004 and 2010.

Ontario's Surplus Power Exported to Other Jurisdictions at Less than Cost

The reduction of electricity demand during peak times was intended to delay the need to expand power-generating capacity in Ontario, along with the related costs. In the decade since the Ontario government announced Smart Metering, peak demand has remained essentially unchanged, but the Ministry has approved significant increases in new power generation, such as renewable energy, creating power surpluses in Ontario. The overall financial impact has been that other jurisdictions are able to buy this surplus power from Ontario at a price considerably lower than what it actually cost Ontario to produce this power. The total cost of producing the exported power was about $2.6 billion more than the revenue Ontario received from exporting that power between 2006 and 2013.

Electricity Billing Amounts Varied by Distribution Company

Ratepayers pay different amounts for the same power usage depending on where they live in Ontario, mainly due to different delivery costs of the 73 distribution companies. For example, a typical residential electricity bill could vary anywhere between $108 and $196 a month, mainly due to the variation in delivery costs ranging from $25 to $111 a month charged by different distribution companies to ratepayers. Implementation of Smart Metering significantly impacted the costs for each of the distribution companies, which chose different smart meters and IT solutions for their in-house systems. The cost per meter therefore varied with each distribution company, ranging from $81 per meter to $544 per meter, depending mainly on geography and the amount of upfront costs. For example, Hydro One, the only distribution company owned by the province, incurred significant costs to implement its smart-metering project. By the end of 2013, Hydro One accounted for $660 million, or almost 50%, of the $1.4-billion implementation costs incurred by all 73 distribution companies. However, it installed 1.2 million smart meters, which represented only about 25% of the 4.8 million smart meters installed in Ontario.

Of the $660 million spent by Hydro One, more than $125 million went to a private-sector vendor with whom it signed multiple contracts for services, such as system integration and project management, and approved a number of change orders. Hydro One selected this vendor based on several criteria, including price. However, pricing evaluation was not based on the overall contract cost. Hydro One explained the contract cost could not be fixed due to the "unknown nature of all the business requirements at the time of the Request for Proposal (RFP)." Granting a contract through the RFP process without acquiring enough knowledge about the business requirements would lead to risks of significant cost increases due to change orders.

Time-of-use (TOU) Pricing Model Has Had Minor Impact on Reducing Peak Demand

Smart Metering was undertaken to enable the introduction of time-of-use (TOU) rates to encourage people to shift power use to Off-Peak periods. However, TOU rates and periods may not be designed effectively to reduce peak demand as intended. Specifically:

- The difference between the On-Peak and Off-Peak rates has not been significant enough to encourage a change in consumption patterns. When TOU rates were introduced in 2006, the On-Peak rate was three times higher than Off-Peak; by the time of our audit, that differential had fallen to 1.8 times, due to significant increases in the Global Adjustment, another component of electricity bills in Ontario. In particular, the Off-Peak rate increased the most, by 114%, while On-Peak increased the least, by 29%. As a result, the difference between On-Peak and Off-Peak rates has narrowed, thus undermining TOU pricing as an incentive for ratepayers to shift power use to Off-Peak periods.
- The distribution of On-Peak, Mid-Peak and Off-Peak periods does not fully reflect actual patterns of electricity demand. In particular, in response to amendments to Ontario Regulation 95/05, the OEB moved the start of Off-Peak in 2010 from 9 p.m. to 7 p.m. on weeknights, making the early evening hours of 7 p.m. to 9 p.m. Off-Peak, even though demand at those times is high.

In 2013, separate studies released by the Ontario Power Authority and the OEB indicated that TOU pricing had a modest impact on residential ratepayers, reducing their peak demand by only about 3%, but a limited or unclear effect on small businesses, and none at all on energy conservation. Our review also found that:

- Of about 1.8 million ratepayers on TOU rates that we reviewed, only 35% of residential ratepayers and 19% of small businesses reduced their consumption during On-Peak periods, while a majority of them (65% of residential and 81% of small businesses) did not.
- About 77,000 ratepayers with smart meters paid set rather than TOU rates because they signed fixed-price contracts with electricity retailers, who do not charge based on time of use. Consumption patterns of retail and TOU ratepayers were about the same, suggesting that TOU pricing provided no more incentive to change usage behaviour than retail contracts.

Significant Impact of Global Adjustment on TOU Rates Not Transparent to Ratepayers

The Electricity Charge on ratepayer electricity bills is composed of two parts: the electricity market price and the Global Adjustment, added to the market price mainly to cover the guaranteed prices paid to contracted power generators in Ontario. From 2006 to 2013, the Global Adjustment increased almost 1,200%, while the average market price actually dropped 46%. The impact of the Global Adjustment has been significant on ratepayer electricity bills as follows:

- The total Global Adjustment paid by Ontario ratepayers has grown from $654 million in 2006 to $7.7 billion in 2013. More contracted generators, especially producers of higher-priced renewable power, will soon be coming online, so the total Global Adjustment is expected to increase even more. Between 2006 and 2015, the 10-year cumulative actual and projected Global Adjustment stands at about $50 billion, equivalent to almost five times the 2014 provincial deficit of $10.5 billion. In essence, the $50 billion is an extra payment covered by ratepayers over and above the actual market price of electricity.
- The vast majority of residential and small-business ratepayers pay for electricity based on the three TOU rates—Off-Peak, Mid-Peak and On-Peak—which were seen as critical in encouraging ratepayers to shift power use to times of lower demand. The Global Adjustment now accounts for about 70% of each of

the three TOU rates. While the Global Adjustment has increased significantly and accounts for a substantial proportion of TOU rates, its impact is not transparent to ratepayers because it is embedded in TOU rates and does not appear as a separate line on most electricity bills (the Global Adjustment appears separately only on bills of those ratepayers who have signed contracts with electricity retailers, who do not offer TOU rates).

Ratepayer Complaints Stemmed from Time-of-use (TOU) Rates and Billing Errors

Many distribution companies did not track or log the nature or type of complaints they received. They were therefore unable to quantify the volume of complaints they received before and after smart-meter implementation; nor could they separate smart meter-related concerns from billing-system issues. Without proper tracking and monitoring of ratepayer concerns, key information could not be collated to identify and resolve common or recurring problems on a timely basis. Those distribution companies that did track complaints found that most ratepayers were upset about TOU pricing, which they believed resulted in higher electricity bills than previously. Our work at Hydro One also noted complaints from ratepayers about estimated bills or no bills for extended periods due to Hydro One's billing-system problems and connectivity issues between smart meters and associated communication systems; and about bills based on errors arising from smart meters connected to incorrect addresses.

Duplication of Services by Provincial Data Centre and Local Distribution Companies' In-house Systems

Under Smart Metering, the IESO is recovering the cost of its $249-million provincial data centre, called the Meter Data Management and Repository (provincial data centre), from all residential and small-business ratepayers through a Smart Metering Charge of 79¢ per month that began in May 2013 and was set to end in October 2018. These costs were not included in the initial cost projection of $1 billion made by the OEB for implementing Smart Metering.

Of the 4.8 million smart meters installed across the province, approximately 812,000 have not transmitted any data to the provincial data centre for processing. Although these ratepayers have never benefited from the provincial data centre, they still have to pay the monthly Smart Metering Charge of 79¢, totalling about $42.1 million up to October 2018.

The IESO has exclusive authority to develop and operate a provincial data centre in which to process smart-meter data for the province. However, the goal of operating the provincial data centre as a central system to ensure standard and cost-effective data processing has not been met because most distribution companies have used their own systems to process smart-meter data (before transmitting it to, or after receiving it from, the provincial data centre) for billing purposes. The provincial data centre was not available when some distribution companies started to roll out smart meters. Of the distribution companies we consulted, 88% indicated that the provincial data centre and their own systems have similar functions, resulting in redundancy. The costs of this duplication—one system at the provincial level and another locally—are passed on to ratepayers. The monthly operating cost for the local systems is, on average, about 21¢ per meter, which is being borne by ratepayers on top of the 79¢-a-month Smart Metering Charge.

Limitations of Provincial Data Centre and Distribution Companies in Processing Smart-Meter Data

Several limitations in processing smart-meter data by the provincial data centre and the business processes at the distribution companies have affected the quality and usefulness of smart-meter data, which in turn can affect billings to ratepayers. These limitations were associated with situations such as meter replacements and power blackouts. Also, half the distribution companies we consulted indicated that the provincial data centre has limited capabilities for data retrieval and querying. In

August 2013, the IESO reported to its board that the provincial data centre was able to manage data queries during its early stage of implementation, but it was not designed to support the expected increases in volume of data-retrieval requests from distribution companies.

Contract Terms for Operating Fee of Provincial Data Centre Not Clear

The IESO and a private-sector vendor signed a five-year contract in 2006, with an option to extend for another two years, for developing, implementing and operating the provincial data centre. The IESO paid the vendor $81.7 million for services up to March 2013. However, the $13.4-million-a-year contract fee for the two-year extension period was almost double the $6.8-million-a-year cost of the previous five years. The IESO attributed a portion of the fee increase to the additional costs associated with changes made to the provincial data centre and the higher number of meters being put in service during the two-year extension period. We found that the fee increase was due mainly to an error stemming from a contract amendment that did not clarify the fee for the two-year extension period. The IESO noted that this was an oversight on the part of the vendor, the IESO and their counsels, and that since the vendor incurred losses on the contract, the error offered the vendor an opportunity to improve its commercial position.

Monitoring of Smart Metering-related Fire Safety Risk Not Sufficient

There have been cases of fires arising from smart meters in Ontario and in other jurisdictions. However, no accurate and complete information on smart meter-related fires was available in Ontario to determine and monitor the scope and extent of the problem across the province. Only anecdotal evidence was available, which indicated three possible root causes for the fires: improper installation of smart meters, defective smart meters and problems with old meter bases where smart meters are mounted.

OVERALL MINISTRY RESPONSE

Electricity systems around the world are adapting to meet the new and complex demands of technology advances and customer expectations. In 2004, the province took a critical step towards modernizing Ontario's electricity grid with the announcement of the Smart Metering Initiative.

The Ministry acknowledges that given the ambitious timeline to install smart meters by 2010 and the inherent structure of the distribution industry, with over 70 local distribution companies, that the initiative was both complex and challenging.

Faced with these challenges, the Ministry, the IESO, the OEB and local distribution companies worked collaboratively to make Ontario one of the first jurisdictions in North America to roll out smart meters.

The deployment of 4.8 million smart meters has brought a number of benefits to the province, including the ability of consumers to respond to price signals. Going forward, smart meters, as the base technology for a modern grid that enables emerging technologies and applications like electric vehicles, electricity storage and innovations to make Ontario homes smarter, will continue to deliver value to Ontario.

The Ministry will incorporate the recommendations of the Auditor General's report when working in partnership with our agencies and the broader sector to deliver future smart meter initiatives and related investments.

Detailed Audit Observations

Governance and Oversight of Planning and Implementation

In April 2004, the Ontario government announced the Smart Metering Initiative (Smart Metering)—the first and the largest smart-meter deployment in

Canada—and set aggressive targets to install smart meters at the premises of all residential and small-business ratepayers by 2010, with an interim target of 800,000 installations by 2007. Given the size and complexity of Smart Metering, the Ministry of Energy (Ministry) had, and continues to have, an ongoing and ultimate responsibility as a central planner to ensure that effective governance and project management are in place to monitor planning and implementation.

Insufficient Justification and Planning for Smart Metering

A key principle of effective governance and project management is the use of comprehensive and relevant information about costs, benefits and risks to assess whether a proposed project is cost-effective and viable on an ongoing basis. This helps ensure that money is invested only if there is a continuing net benefit. Typically, cost-benefit analyses and business cases are two ways to evaluate the cost-effectiveness of a project, ensure that prudent decisions are made, and determine how stakeholders, and in this case electricity ratepayers, could be affected. As noted in the following sections, we found that the justification and planning for Smart Metering were insufficient.

Cost-benefit Analysis Not Done *Before* Public Announcement of Smart Metering

All key parties involved in implementing Smart Metering, including the Ministry, the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), confirmed to us that no cost-benefit analyses or business-case studies were done before the government announced Smart Metering in April 2004. Specifically, the OEB said it did not undertake any cost-benefit study because the Minister directed it only to develop an implementation plan (see **Figure 2**). The OEB plan noted, however, that many stakeholders and ratepayers expressed concern about the lack of a cost-benefit analysis and felt that, in particular, smart meters would not be justified for ratepayers using low volumes of electricity. In addition, senior IESO management asked the Ministry several times for a business case to support Smart Metering, but never got one.

From our research, we noted that other jurisdictions have initially and continuously assessed the cost-effectiveness and feasibility of their smart-metering programs. For example:

- British Columbia began a smart metering program in 2011 after BC Hydro developed a business case in 2006, which it updated in 2010 because of the continued evolution of the smart-metering industry and technologies. The business case summarized the cash flows for costs and benefits over a 20-year term, and estimated the annual impact on electricity bills. In response to ratepayers who did not want smart meters, BC Hydro announced in July 2013 that anyone could opt out of the smart-metering program by paying a monthly fee to cover the cost of manual meter readings.
- The government in Victoria, Australia, commissioned two cost-benefit studies in 2004 and 2005 that became the basis for its 2006 decision to mandate the rollout of smart meters to all homes and small businesses. However, the Australian Government Productivity Commission concluded in 2012 that inadequate cost-benefit analysis had been done and that, overall, the decision to roll out smart meters appeared to be premature and/or poorly planned, with inadequate knowledge about smart-meter technologies, their costs and associated risks.
- In Germany, the government published a study in July 2013 that analyzed the costs and benefits of a full rollout of smart meters. The study concluded that smart meters were not cost-efficient for small ratepayers because they would cost more to buy, install and operate for average households than the

potential savings they would generate. The German government concluded it was not in the interest of ratepayers to implement a 2009 European Union recommendation that member states provide smart meters to 80% of ratepayers by 2020, and suggested instead a rollout tailored to different ratepayer groups, based on how much electricity they consume.

- The British government began preparatory work on its smart-metering program in 2009 and a business case was approved two years later. The government conducted further assessments in January 2014 to update the initial cost and benefit estimates, and it developed an overall strategy in mid-2014 to install smart meters in all homes and small businesses by 2020.

Compared to the experience in these other jurisdictions, the implementation of Smart Metering in Ontario without proper cost-benefit analysis to support the initial decision to install smart meters significantly exposed the province to unanticipated risks and unknown costs.

OEB's Role as Independent Regulator Set Aside

Shortly after the government announced Smart Metering in April 2004, the Minister of Energy (Minister) issued a directive to the OEB under the *Ontario Energy Board Act, 1998* (Act), requiring it to develop an implementation plan to achieve the government's smart-meter targets. Under the Act, the Minister has the authority to direct the OEB to promote electricity conservation in a manner consistent with government policy. The Ministry also contracted with an external consultant in January 2005 to analyze different implementation strategies and to estimate the benefits of Smart Metering.

Both the Act and the directive essentially provided the Minister with the authority to set aside the regulatory role of the OEB (an independent Crown corporation responsible for regulating Ontario's electricity and natural-gas sectors in the public interest) in Smart Metering. The OEB's mandate includes protecting the interests of ratepayers with respect to electricity prices. However, instead of conducting a cost-benefit analysis to justify its decision, and submitting the analysis to the OEB for independent review and objective evaluation, the Ministry, as a proponent of Smart Metering, directed the OEB to develop the implementation plan and project the costs of Smart Metering, as noted in the following section.

Cost-benefit Analysis, Prepared *After* Public Announcement of Smart Metering, Flawed

In the implementation plan it submitted to the Ministry in January 2005, the OEB projected the total cost of implementing Smart Metering at $1 billion, plus a net increase of $50 million a year to the operating costs of the province's distribution companies. A separate consultant's report, delivered to the Ministry three months after the OEB submitted its implementation plan, projected total benefits of Smart Metering would be approximately $1.6 billion over 15 years from four sources as shown in **Figure 4**, which indicated that about half of the projected benefits would result from a reduction in distribution companies' operating costs and a reduction in ratepayers' energy costs, and half

Figure 4: Summary of Projected Net Benefits of Smart Metering Initiative ($ billion)

Source of data: Ministry of Energy

	Approximate Amount
Reduction in distribution companies' operating costs	0.4
Reduction in ratepayers' energy costs	0.4
Avoidance of expanding power generating capacity	0.6
Deferral or avoidance of expanding transmission and distribution systems	0.2
Total Projected Benefits[1]	**1.6**
Total Projected Implementation Cost[2]	**(1.0)**
Projected Net Benefits	**0.6**

1. Benefits projected by an external consultant engaged by the Ministry.
2. Cost projected by the OEB.

from deferring or avoiding the expansion of power generating capacity as well as transmission and distribution systems.

After considering the OEB's implementation plan and the separate consultant's report, as well as consulting the distribution companies, the Ministry requested Cabinet approval to proceed with smart metering based on a dual-implementation approach: decentralized ownership of smart meters by the distribution companies, and centralized data management by a provincial agency (see **Figure 2** and the section **Smart-meter Data Processing Systems and Costs**). In its October 2005 request to Cabinet, the Ministry indicated to Cabinet that Smart Metering could yield net benefits of close to $600 million over 15 years. As shown in **Figure 4**, the Ministry arrived at this number simply by subtracting the projected implementation cost of $1 billion in the OEB plan from the projected benefits of $1.6 billion over 15 years in the consultant's report. However, we found that the $600 million in net benefits was overstated, because it did not include the OEB plan's projected net increase of $50 million a year to distribution companies in operating costs. By taking the $50-million-a-year figure into account, we calculated that the projected net benefits over 15 years would be reduced seven-fold, from $600 million to $88 million in today's dollars.

Ineffective Implementation and Oversight of Smart Metering

Given the large scale of Smart Metering and the high risk associated with new technology, its implementation should have warranted strong governance and oversight. However, we identified the following issues regarding the targets of reducing peak electricity demand, the assessment of changes in the electricity market, and the monitoring of costs and benefits of Smart Metering.

Peak-demand Reduction Targets Not Met

The key objective of Smart Metering was to reduce peak electricity demand, and therefore defer the need to expand power-generation capacity in Ontario. In the decade since Smart Metering was announced, the province approved significant increases in new generation, including renewable energy, and the supply of power actually rose 12%. During this same period, average electricity demand also dropped 8% due to a slowing economy and other conservation efforts, including, for example, newer energy-efficient appliances. Despite the reduction of average demand, peak demand has remained essentially unchanged over the same period.

The Ministry indicated that Smart Metering was only a component of the government's overall electricity conservation plan, and so there was no other specific target for Smart Metering. Instead, the Ministry set several peak-demand reduction targets to measure overall electricity conservation, including a 1,350MW reduction by 2007, an additional 1,350MW drop by 2010, and a further 3,600MW reduction by 2025. We found that:

- The initial 1,350MW targeted reduction in peak demand was irrelevant to Smart Metering anyway because it was supposed to be achieved by 2007, three years before full installation of smart meters was to be completed.
- The second target of reducing peak demand by an additional 1,350MW by 2010, for a total reduction of 2,700MW, was also irrelevant to Smart Metering, which had not been fully implemented by 2010. While approximately 4.6 million ratepayers had smart meters installed by the end of 2010, only about one-third (or 1.6 million) of them were being billed based on time-of-use (TOU) pricing. Actual peak demand in fact rose slightly by about 100MW, from 24,979MW in 2004 to 25,075MW in 2010. In measuring against the target, the Ministry indicated that as of December 31, 2010, peak demand was

reduced by about 1,800MW when measured against forecast and weather-adjusted peak demand data rather than actual demand data, but the 2010 reduction target of 2,700MW still was not met. Since 2010, actual peak demand has remained relatively stable.

Ongoing Changes in Electricity Market Not Properly Assessed or Addressed

The pace of change in the electricity sector has been rapid, so proper and adequate planning, with ongoing assessment and monitoring of plans, is important to prepare for potential risks and costs in implementation of any new electricity initiative. However, we noted that Smart Metering was implemented without sufficient periodic re-evaluation of Ontario's electricity supply and demand positions throughout the implementation period.

During the early implementation stage of Smart Metering in 2006, demand for electricity fell in Ontario as a result of an economic recession and other conservation efforts. However, instead of adjusting to this fall in demand, the province approved significant new increases in power-generation capacity to replace coal, and maintained the aggressive timelines set for implementation of Smart Metering. As a result, the supply of available power has steadily increased, and has been consistently higher than peak demand, thereby reducing the effectiveness of Smart Metering and other conservation programs. Although the IESO is required to maintain an operating reserve of between 1,300MW and 1,600MW for contingencies and other uncertainties, we noted that since 2009, the available surplus power of between 4,000MW and 5,900MW was considerably more than the required reserve. The IESO expected that the surpluses will continue in 2015, but could decline in the latter half of this decade when several nuclear plants will be refurbished or retired.

Ontario has been exporting most of its surplus power to the United States through the transmission grid connecting it to neighbouring jurisdictions, including New York, Michigan and Minnesota. We noted that net exports have grown by 158%, from 5.2TWh in 2006 to 13.4TWh in 2013, representing 3% and 9% of Ontario's total generation, respectively.

However, the export price has been well below the actual cost of generating this power. On average, other jurisdictions paid only about three to four cents per kWh for power that cost Ontario ratepayers more than 8¢ per kWh to produce because of the Global Adjustment, an extra charge on top of the electricity market price (see the section **Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers**). The total cost of producing the exported power was about $2.6 billion more than the revenue Ontario received from exporting that power between 2006 and 2013. However, given that Ontario ratepayers would still have to pay for the production of surplus power even if that power was not exported, revenue from exports did help Ontario ratepayers pay for part of the Global Adjustment.

Costs and Benefits Not Monitored

The Ministry has neither updated the projected costs and benefits prepared in early 2005 during evolution of the implementation process, nor tracked the actual costs and benefits in order to monitor the amount of net benefits realized. We conducted our own analysis to determine the actual costs and benefits to date, and found as follows:

- With respect to costs, the OEB confirmed that there was no process to check or update its projected implementation cost of $1 billion and compare it against actual costs because the Minister never formally approved the OEB's implementation plan. We calculated that, based on our review of information submitted by the distribution companies to the OEB, the total cost incurred by the distribution companies to implement Smart Metering was about $1.4 billion up to the end of 2013, or $400 million more than the cost projection in the OEB plan. The final total will be higher still because some distribution companies were still carrying out implementation at the time of our audit and had not yet submitted all of their costs to the OEB for review. The OEB also indicated that the Ministry, the IESO and the distribution companies incurred additional costs for activities brought in after the OEB's implementation plan was prepared, including the development, implementation and operation of a provincial data centre at a cost of about $249 million (see the section **Ratepayers Charged for Redundant or Unused Provincial Data Centre Service**). As shown in **Figure 5**, we noted that as of May 2014, the total approximate costs of implementing Smart Metering had reached almost $2 billion.

- With respect to benefits, only 5% of the distribution companies we consulted reported operational savings, mainly from no longer having to send staff to read meters manually, and all of these were of modest size; the other 95% said they realized no savings and their operating costs relating to smart-metering activities since implementation had actually risen. As well, the savings achieved by ratepayers were so far limited, contrary to government communications to the public that smart meters and TOU pricing would help "save money" and "lower electricity bills" if appliances were run during Off-Peak hours. In fact, over half of the distribution companies we consulted received a high volume of complaints about "increased bills with no savings" from ratepayers with smart meters who paid TOU rates (see **Appendix 1**). In addition, several large distribution companies analyzed a sample of their residential ratepayers and found that a majority would see no reduction in their bills after implementation of TOU pricing. Therefore, of the four sources of projected benefits shown in **Figure 4**, two of them (reduction of distribution companies' operating costs and reduction in ratepayers' energy costs) have not been achieved. The remaining two sources of benefits (avoiding expansion of power-generation capacity and deferring or avoiding expansion of transmission and distribution systems) have yet to be seen because, as noted previously, the 2010 peak-demand reduction target was not met and actual peak demand has remained relatively stable since 2010.

RECOMMENDATION 1

To ensure that any future major initiative in the electricity sector is implemented cost-effectively and achieves its intended purposes, the Ministry of Energy should:

- conduct cost-benefit analysis or business cases prior to implementing an initiative to assess costs, benefits and risks;
- review the role of the Ontario Energy Board as an independent regulator when ministerial directives that impact electricity rates are issued;
- consider different scenarios or alternatives as part of the planning process to assess possible risks and uncertainties; and
- re-evaluate and update the implementation plan periodically to identify and respond to changing conditions and unforeseen events in the electricity market.

MINISTRY RESPONSE

In line with best practice, the Ministry will ensure that the proper analysis is completed ahead of implementing major initiatives. In addition, the Ministry will continue to work with the relevant sector participants in a partnership approach to ensure that cross-sector initiatives are appropriately planned and consider the respective roles of those involved.

Also in line with best practice, the Ministry respects the need to evaluate programs on a regular basis to maximize efficiencies. To this end, the Ministry will work with its agencies to re-evaluate the implementation of smart meters, including the potential benefits they could enable through the development of a smart grid in Ontario.

Figure 5: Summary of Costs Incurred by Entities Involved in the Smart Metering Initiative, 2005–2014

Prepared by the Office of the Auditor General of Ontario

Entity	Date	Cost Description	Approx. Cost ($ 000)	Report Section (If applicable)
Ministry of Energy	Jan. 2005-Apr. 2005	Engaging an external consultant to develop an implementation strategy and to estimate the benefits of Smart Metering	160[1]	Ineffective Implementation and Oversight of Smart Metering Initiative
	Nov. 2005-Apr. 2006	Engaging experts for technical, system and legal supports during early implementation stage of Smart Metering	400[1]	
	2006-2010	Developing Communication templates and materials for use by the distribution companies to raise public awareness and understanding of Smart Metering	640[1]	
Ontario Energy Board (OEB)	Jul. 2004-Jan. 2005	Developing the implementation plan for Smart Metering Initiative requested by the Minister	420	Ineffective Implementation and Oversight of Smart Metering Initiative
	Nov. 2010-May 2014	Engaging an external consultant to set time-of-use (TOU) rates	410	Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers
	Mar. 2013-Mar. 2014	Engaging an external consultant to assess the impact of TOU rates on consumption patterns	180	Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers
Independent Electricity System Operator (IESO)	2006-2014	Developing, implementing and operating a Smart Metering Entity and a provincial data centre	160,000[1,2]	Ratepayers Charged for Redundant or Unused Service
Local Distribution Companies	2006-2013	Implementing Smart Metering	1,400,000[3]	Ineffective Implementation and Oversight of Smart Metering Initiative
	2005-2014	Scrapping conventional analog meters	400,000[4]	Additional Costs of Implementing Smart Metering Initiative
Total			**1,962,210[5]**	

1. Covers activities added after OEB's 2005 implementation plan, or those outside the original scope of the Smart Metering Initiative.
2. Total approved by the OEB was $249 million up to 2017. This cost is being recovered from ratepayers through a monthly smart-metering charge of 79 cents. The amount up to 2014 was approximately $160 million.
3. Hydro One accounted for more than $660 million of the $1.4 billion spent by all 73 distribution companies. About $500 million (mainly from Hydro One) of the $1.4 billion is under review by the OEB and has yet to be approved by the OEB.
4. We reviewed the OEB's 2005 estimate. In our view, this is a reasonable estimate of total stranded costs.
5. See Figure 15 for other system-related costs incurred by the distribution companies that we interviewed and surveyed.

Billing Impacts on Electricity Charge to Ratepayers

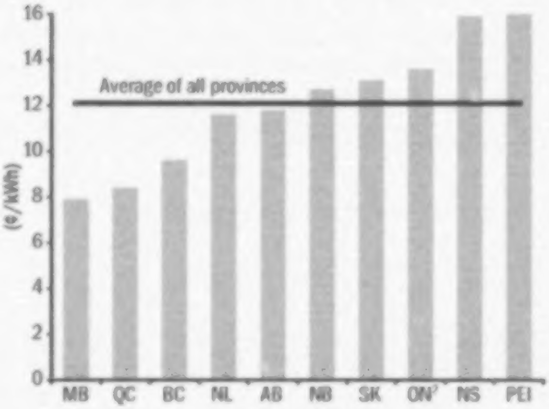
Our research noted that the average electricity bill for residential and small-business ratepayers in Ontario has been among the highest in Canada, as shown in **Figure 6**. Ontario's typical electricity bill for residential and small-business ratepayers contains four categories of charges: Electricity, Delivery, Regulatory and Debt Retirement. Smart Metering has had an impact on the two biggest categories, Electricity and Delivery, as described in **Figure 7**. There are three key pricing methods for the Electricity Charge, as illustrated in **Figure 8**. Over 90% of residential and small-business ratepayers pay this charge based on time-of-use (TOU) pricing, which is enabled by smart meters to measure the exact time when electricity is used. The remaining 10% pay either a two-tiered rate, often because they live in places where it is not technically feasible or cost-effective to install smart meters, or fixed-contract prices to electricity retailers, who do not offer TOU rates.

Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers

The Electricity Charge accounts for more than half of a typical residential electricity bill, as shown in **Figure 7**, and is made up of two components: the electricity market price and the Global Adjustment. The Global Adjustment is an extra charge, resulting from a government policy decision, that is tacked onto the electricity market price mainly to cover the gap between the guaranteed prices paid to contracted power generators and the electricity market price. It exists because most power generators in Ontario have contracts with the province that pay them more than the market price. For example, most renewable-energy generators such as wind and solar have contracted with the Ontario Power Authority under the Feed-in Tariff program that offers wind-power generators 11.5¢/kWh and solar power generators between 28.8¢/kWh and 39.6¢/kWh. These contract prices are considerably higher than the average electricity market price of about 3¢/kWh.

Figure 6: Comparison of Average Electricity Bill (Excluding Taxes) for Residential and Small-business Ratepayers[1] by Province, as of April 1, 2014

Source of data: Hydro Quebec



1. Residential electricity bill was based on average ratepayer with consumption of 750 kWh/month. Small-business electricity bill was based on average ratepayer with power demand of 40 kW/month.
2. Ontario figure includes Ontario Clean Energy Benefit, which is a 10% rebate on the total electricity bill, as illustrated in Figure 7.

Our review of trends in the Electricity Charge noted that the Global Adjustment has continued to increase to the point where it now significantly exceeds the electricity market price. This is the result of many new generators, especially in the renewable-energy sector, coming online with long-term contracts just as the market price has fallen due to oversupply of power and thus been insufficient to cover guaranteed contract prices. As shown in **Figure 9**, the Global Adjustment increased by a dramatic 1,200% between 2006 and 2013, from 0.4¢/kWh to 5.5¢/kWh, and is expected to grow to 6.7¢/kWh by 2015. During the same period, the average electricity market price has dropped by 46%, from 4.9¢/kWh to 2.7¢/kWh, and is expected to fall to 2.4¢/kWh by 2015 due to increasing electricity supply.

The total Global Adjustment charged to ratepayers has grown from $654 million in 2006 to $7.7 billion in 2013, as shown in **Figure 10**. With more new contracted generators, especially of renewable energy, expected to begin producing energy at higher contract prices, the total Global Adjustment is expected to grow further, to $8.5 billion in 2014 and $9.4 billion in 2015. From 2006 to 2015, the 10-year cumulative actual and projected Global Adjustment is about $50 billion—an extra charge to ratepayers over and above the market price of electricity. To put this into perspective, $50 billion is:

- sufficient to cover the 2014 provincial deficit of $10.5 billion almost five times;

Figure 7: Components of Electricity Bill with Examples, 2013
(Average Typical Residential Ratepayer Consuming 800 kWh/Month)

Source of data: Ontario Energy Board (OEB)

		Examples		
Bill Component	**Description**	**Distribution Company A ($)**	**Distribution Company B ($)**	**Avg. of all Distribution Companies ($)**
Electricity Charge	The cost of the actual electricity consumed. Presentation of this charge on bills varies, depending on whether the ratepayer buys electricity from a distribution company or has signed a contract with a retailer. Over 90% of low-volume power use ratepayers (residential and small businesses) pay power charges based on time-of-use pricing, enabled by installation of smart meters (see Figure 6).	71.1	71.1	71.1
Delivery Charge*	The cost of delivering electricity from power-generating facilities to ratepayers via high-voltage (transmission) and low-voltage (distribution) systems. Transmission is handled primarily by Hydro One and distribution is handled by the distribution companies, including Hydro One. Costs of implementing and operating smart meters are included in this line and vary from one distribution company to another, usually with higher charges in rural and remote locations.	24.9	110.6	43.6
Regulatory Charge	The cost to operate the electricity market and maintain the reliability of the provincial grid. This includes the operational costs of the IESO and the Ontario Power Authority as well as a portion of administrative costs of local distribution companies.	4.9	5.1	5.0
Debt Retirement Charge	Charge mandated by the government to help pay off the residual stranded debt of the old Ontario Hydro that could not be funded by other revenues. The 2014 Budget proposed to eliminate this charge for residential ratepayers after December 31, 2015.	5.6	5.6	5.3
Electricity bill before tax and benefit		**106.5**	**192.4**	**125.0**
Harmonized Sales Tax	The 13% tax that took effect on July 1, 2010, replacing the federal goods and services tax (GST) and the provincial sales tax (PST).	13.9	25.0	16.3
Ontario Clean Energy Benefit	A 10% rebate on the total electricity bill for the first 3,000 kWh/month of electricity consumed. Rebate is in effect from 2011 to 2015. Annual cost of rebate is funded by taxpayers.	(12.0)	(21.8)	(14.1)
Total Electricity Bill		**108.4**	**195.6**	**127.2**

* See Appendix 2 for the Delivery Charge of each distribution company in Ontario.

- enough to pay the annual salary of about 2.3 million Ontarians working full time at the provincial minimum wage; or
- about 7.5 times more than the $6.6-billion spent in the 2012/13 fiscal year on social-assistance programs such as the Ontario Disability Support and Ontario Works programs administered by the Ministry of Community and Social Services.

For ratepayers whose Electricity Charge is based on TOU pricing, the Global Adjustment now accounts for about 70% of each TOU rate. Even though the Global Adjustment has increased significantly and accounts for a substantial proportion of

Figure 8: Pricing Methods for Electricity Charge

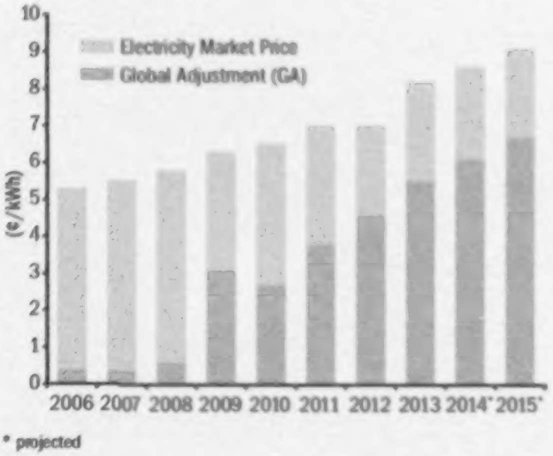
Source of data: Ontario Energy Board (OEB)

Pricing Method	Time-of-Use (TOU)	Tiered	Retail Contract
Electricity Provider	Local Distribution Company	Local Distribution Company	Electricity Retailer
Electricity Charge based on Time-of-Use?	YES Rates vary depending when electricity is used, reflecting that electricity costs more as demand rises (highest during the day on weekdays and lowest in evenings, at night, on weekends and holidays).	NO Rates are fixed in two tiers regardless of when electricity is used (a lower rate for monthly usage up to a threshold and a higher rate for usage over the threshold).	NO Rates are fixed by contracts that ratepayers sign with retailers no matter what time of day electricity is used.
Electricity Charge Regulated by Ontario Energy Board (OEB)?	YES OEB reviews and sets TOU and tiered rates twice a year (May 1 and Nov 1) based on future electricity prices estimated by an external consultant.		NO
Global Adjustment* Shown Separately on Bill?	NO Global Adjustment is blended into TOU and tiered rates, and embedded in the Electricity Charge line on electricity bill.		YES Global Adjustment appears as a separate line on electricity bill.

* The Global Adjustment is an extra charge designed to cover the contract prices paid to power generators, such as renewable energy generators, and the cost of conservation programs.

Figure 9: Historical and Projected Electricity Charge in Ontario, 2006–2015

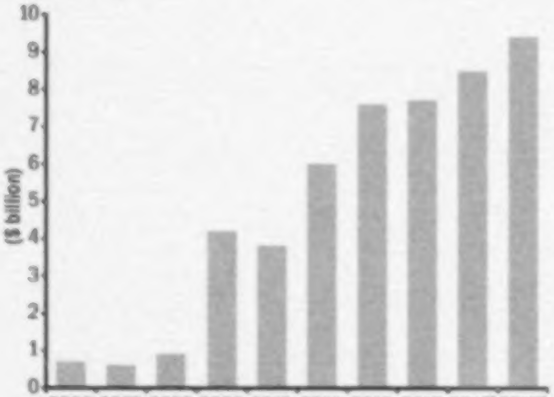
Source of data: Independent Electricity System Operator and Ontario Power Authority



* projected

Figure 10: Historical and Projected Total Annual Global Adjustment Charged to Electricity Ratepayers in Ontario, 2006–2015

Sources of data: Independent Electricity System Operator and Ontario Power Authority



* projected

the TOU rates, its impact is not transparent to most ratepayers because it does not appear on electricity bills as a separate line; instead, it is embedded in the TOU rates used to calculate the Electricity Charge (As shown in **Figure 8**, the Global Adjustment only appears separately on bills of those ratepayers who have signed contracts with electricity retailers).

Ineffective Design of Time-of-use Rates and Periods

As part of Smart Metering, there are three time-of-use (TOU) rates: On-Peak, Mid-Peak and Off-Peak, consistent with the TOU design in other jurisdictions. As illustrated in **Figure 11**, TOU rates vary, depending on the time of the day, day of the week, and season, to reflect the assumption that as demand rises, electricity costs more to supply. Like many cell phone plans, TOU rates are lowest in the evenings, on weekends and holidays; and highest during the day on weekdays. The combination of smart meters and TOU pricing was expected to encourage energy conservation by giving ratepayers information and incentives to manage their electricity usage.

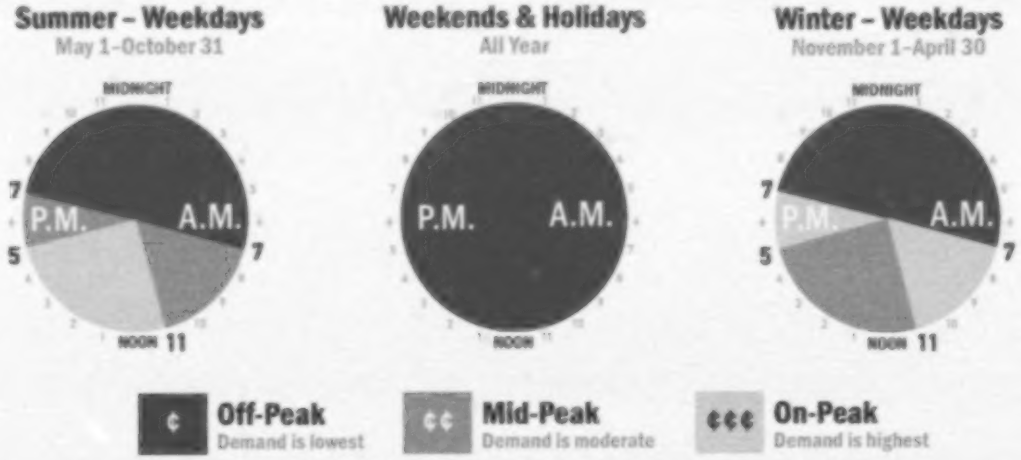
To account for seasonal variations in electricity consumption patterns, the OEB reviews and sets TOU rates every May and November, based on consumption and cost projections made by an external consultant with whom it contracted. Ontario Regulation 95/05 requires that the OEB set the TOU rates to meet three objectives:

- recover from ratepayers the full cost of electricity supply;
- reflect the differences in the costs of supplying electricity at different times and seasons; and
- provide ratepayers with incentives to change their time of use.

In order to encourage conservation and reduce peak electricity demand, TOU rates and periods

Figure 11: Time-of-use Pricing Periods in Ontario for Residential and Small-business Ratepayers

Source of data: Ontario Energy Board (OEB)



Summer Weekdays **(May 1–October 31)**	Weekends & Holidays **(All Year)**	Winter Weekdays **(November 1–April 30)**
One On-Peak period in the afternoon (11 a.m.–5 p.m.), mainly due to the increase in air conditioner use during the hottest hours.	No On-Peak period and all hours Off-Peak, mainly because of comparatively lower overall demand.	Two On-Peak periods, mainly due to less daylight. • In the morning (7 a.m.–11 a.m.) when people turn on lights and appliances. • In the evening (5 p.m.–7 p.m.) when people get home from work.

must be set to provide an incentive to reduce usage during On-Peak times, when both demand and price are high, or shift it to Off-Peak times, when both demand and price are low.

With respect to the TOU rates, the greater the difference between On-Peak and Off-Peak rates, the higher the likelihood that ratepayers will change their usage patterns. However, we noted that the difference between On-Peak and Off-Peak rates in Ontario may not be significant enough to provide ratepayers with an incentive to change their electricity-use behaviour. Specifically:

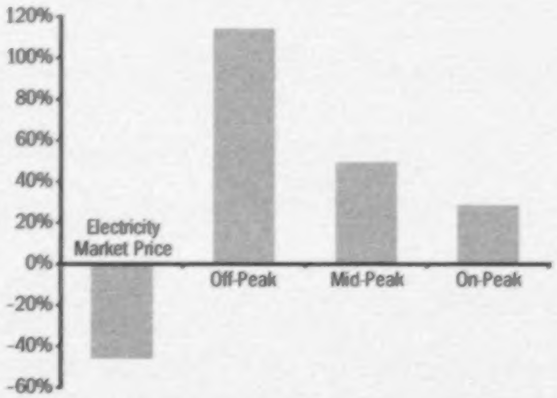
- When TOU pricing was introduced in 2006, the initial On-Peak–to–Off-Peak ratio was three-to-one, meaning that On-Peak power cost three times as much as Off-Peak. However, the ratio had dropped to 1.8-to-one at the time of our audit due to the impact of the substantial growth of the Global Adjustment, as discussed in the section **Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers**. In particular, the Off-Peak rate rose the most, by 114%, and the On-Peak rate the least, by 29%, as shown in **Figure 12**. As a result, the difference between the two rates narrowed, reducing the On-Peak–to–Off-Peak ratio and undermining TOU pricing as an incentive for ratepayers to shift to Off-Peak.
- In 2010, the OEB commissioned an external consultant to study TOU rates around the world and assess the appropriateness of Ontario's TOU rates. Consistent with our observation above, the consultant reported that Ontario's On-Peak–to–Off-Peak ratio was "low relative to TOU programs in other jurisdictions and will likely produce modest ratepayer response or bill savings." The average ratio elsewhere was four-to-one, compared to Ontario's 1.8-to-one. The Ontario ratio could deliver only about a 1% drop in the average ratepayer's peak demand, while a four-to-one ratio could potentially yield a drop three times greater. The study proposed several options to increase the ratio. However, following a consultation in 2011, the OEB chose not to make any change because a majority of stakeholders said such a move would be premature in the absence of robust and reliable Ontario-based empirical data.

With respect to the TOU periods, we noted that the distribution of On-Peak, Mid-Peak and Off-Peak periods did not fully reflect actual patterns of electricity use. Specifically:

- There has been a mismatch between demand and TOU rates on weekday early-evening hours (7 p.m.–9 p.m.), when demand is high but ratepayers pay the Off-Peak, or lowest, rate. The OEB initially set the Off-Peak period on weekday evenings to begin at 10 p.m., and then moved it to 9 p.m. in November 2009 to better reflect actual patterns of demand. However, in response to amendments to Ontario Regulation 95/05 in December 2010, the OEB set the start of Off-Peak at 7 p.m., making the early evening hours of 7 p.m. to 9 p.m. Off-Peak, even though demand remained high at those times, as illustrated in **Figure 13**.
- A 2013 study by an Ontario university found that the choices of On-Peak and Off-Peak times, number of seasons, and season start

Figure 12: Percentage Change of Time-of-use (TOU) Rates and Electricity Market Price in Ontario, 2006–2014

Source of data: Ontario Energy Board and Independent Electricity System Operator



and end times used in Ontario's TOU pricing were far from optimal. The study echoed our observation that the distribution of On-Peak, Mid-Peak and Off-Peak periods did not properly reflect the actual distribution of demand. The study also found that while the current TOU pricing structure has two seasons (summer: May 1-October 31, and winter: November 1-April 30), the optimal number of seasons should be four, beginning March 11 (spring), May 20 (summer), September 16 (fall) and November 4 (winter). If the current two-season pricing structure is to be maintained, the study said, summer should start on April 15 rather than May 1, and winter on October 14 rather than November 1.

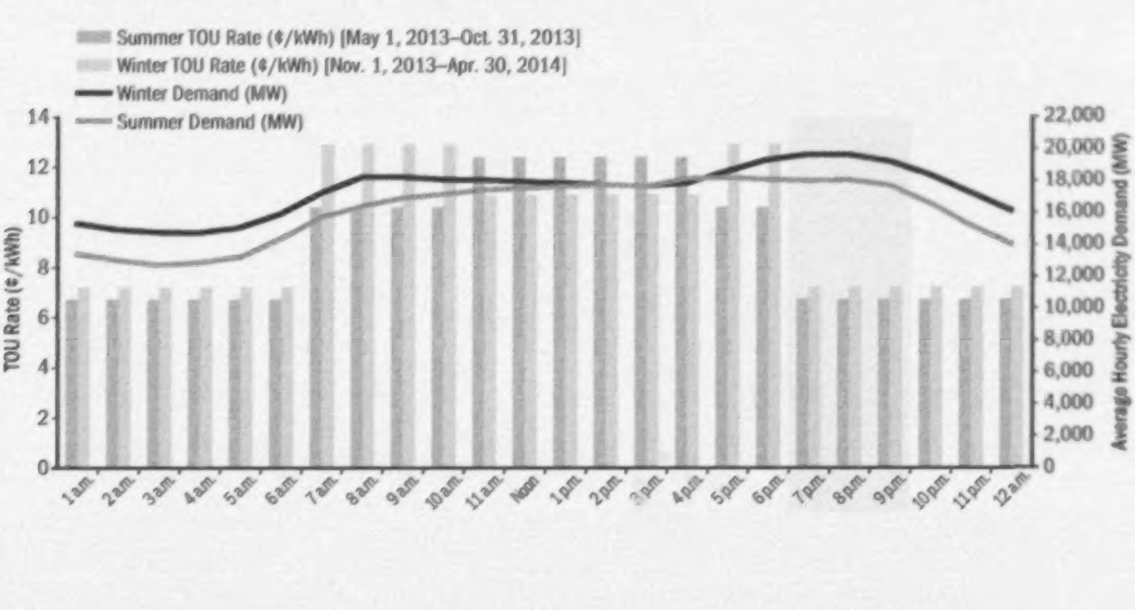
Limited Effectiveness of Time-of-use Pricing Model

At the time of our audit, the distribution companies we consulted said they did not conduct studies to examine the changes in consumption after implementation of TOU pricing. The impacts of TOU pricing were evaluated in 2013, when the Ontario Power Authority (OPA) and the OEB contracted with external consultants to examine the effectiveness on a sampling of ratepayers of TOU pricing in encouraging conservation and reducing peak demand. Both agencies released their studies in late 2013 with similar findings: TOU pricing has had a modest impact on reducing peak demand among residential ratepayers, a limited or unclear effect on small businesses, and no impact at all on energy conservation. Specifically:

- In November 2013, the OPA released its study, based on 105,000 residential ratepayers in four distribution companies, and 32,000 small businesses in two distribution companies. The study found that TOU pricing had a far smaller impact on reducing peak demand of small businesses than it did for residential ratepayers. Depending on the distribution company, the drop in peak demand during the summer ranged from 2.6% to 5.7% for residential ratepayers, but only from 0% to 0.6% for small businesses. The study also found that the impact of TOU pricing on energy conservation was "limited, being very small or zero," for residential ratepayers, and "negligible and generally insignificant" for small businesses.
- In December 2013, the OEB released its study, based on a sample of 10,000 residential ratepayers and 4,000 small businesses in

Figure 13: Time-of-use (TOU) Rates and Average Hourly Electricity Demand in Ontario, May 2013–April 2014

Sources of data: Independent Electricity System Operator and Ontario Energy Board



16 distribution companies. The study found that TOU pricing reduced peak demand by about 3.3% for residential ratepayers while its impact on small businesses was "ambiguous." The study also found that TOU pricing had no significant impact on energy conservation in the summer.

We performed further analyses based on more current data and larger sample sizes. Specifically, we reviewed consumption patterns of about 1.8 million ratepayers (1.7 million residential ratepayers and 86,000 small businesses in 50 of 73 distribution companies), who paid TOU rates. While 35% of residential ratepayers and 19% of small businesses reduced their consumption during On-Peak periods, the remaining 65% of residential and 81% of small businesses did not.

Since the aforementioned studies by the OPA and the OEB did not specifically cover ratepayers with smart meters who signed fixed-price contracts with energy retailers and so do not pay TOU rates, we examined the consumption patterns and bills of about 77,000 of these ratepayers. Given that they paid fixed prices regardless of time of use, these ratepayers have little or no incentive to confine their consumption to Off-Peak periods, when TOU rates were lowest. However, we noted that consumption patterns of ratepayers paying fixed-contract prices to electricity retailers, and of ratepayers paying TOU rates, were about the same, indicating that TOU rates did not provide ratepayers with sufficient incentive to shift usage to Off-Peak. We also noted that those ratepayers with retail contracts paid an average of about $500 more per year for electricity than they would have without the contracts.

Ratepayer Complaints Stemmed from Time-of-use Pricing and Billing Errors

Ratepayers usually raised questions and concerns about Smart Metering by contacting the OEB and the distribution companies. Since 2008, the OEB has received about 2,400 enquires and complaints relating to smart meters and TOU pricing; about two-thirds of them questioned the TOU pricing structure and whether it would save them money. Given that ratepayers get their bills directly from the distribution companies, the companies received even more enquiries and complaints.

Many distribution companies we consulted did not track enquiries and complaints separately, nor did they log the nature or type of complaints. They were thus unable to quantify the volume of complaints relating to Smart Metering before and after its implementation, and could not separate concerns about smart meters from those about billing. Without proper tracking and monitoring of ratepayer concerns, key information could not be collated to identify and resolve common or recurring problems on a timely basis.

Those distribution companies that had tracked the nature of complaints reported that a majority of the concerns raised by ratepayers related to TOU pricing and fell into the following categories (see **Appendix 1**):

- Ratepayers were upset about high electricity bills or "increased bills with no savings," which they believed were caused by faulty smart meters, but were in fact due to the increase of TOU rates as a result of the significant growth of the Global Adjustment (see section **Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers**).
- Ratepayers had "limited understanding and information about TOU pricing;" and
- Ratepayers had "limited or no ability to change electricity consumption," especially small businesses and individuals at home during most of the day.

For Hydro One, Ontario's largest distribution company and the only one owned by the province, we performed additional detailed reviews of ratepayer enquiries and complaints. In February 2014, four months after we began our audit, the Ontario Ombudsman also began an investigation into complaints at Hydro One. In order to avoid duplication with that undertaking, we modified our audit scope to focus on identifying the root causes of billing issues potentially relating to smart meters and TOU pricing. Of the complaints we examined at Hydro One, most related to high electricity bills due mainly to TOU rates and not to defective smart meters, just like the other distribution companies noted above. In addition to the high-bill concerns relating to TOU rates, we also identified a number of complaints about billing anomalies that fell into the following categories:

- **Billing System Problems:** In May 2013, Hydro One transitioned to a new billing system. However, the transition was not smooth. At the time of our audit, Hydro One was adapting to and working on some technical issues with its new system, but more complex issues had yet to be fixed. We identified complaints about erroneous bills, prolonged estimated bills, delayed bills, multiple bills or no bills at all, that were due to problems with the billing system. For example:
  - In September 2013, a ratepayer received a bill for about $37 million as a result of an error made in calculating electricity consumption, but Hydro One's billing system did not catch this error. In January 2014, the company cancelled the bill and revised the amount owing to about $35,000.
  - In September 2013, a ratepayer with a smart meter received an estimated bill covering electricity usage for seven months. After that, the ratepayer received no bills for five months due to billing-system problems. In April 2014, Hydro One issued 12 bills, all on the same date and for a total of over $4,900. Of these 12 bills, seven were to correct the under-estimated bill issued in September 2013 and five were to "catch-up" on the no-bill period since October 2013.
  - A smart meter installed in March 2012 was found to be malfunctioning, and was replaced in October 2012. However, the ratepayer was not billed until April 2013 due to problems in the billing system. In April 2013, the ratepayer received a "catch-up" bill of about $4,000 for usage between March 2012 and April 2013.
- **Communication System Problems:** Ratepayers did not receive any bills, or received only estimated bills, for extended periods, because actual consumption data was not available due to connectivity issues between the smart meters and associated local communication systems. The problems could be caused by non-communicating smart meters or by seasonal variations in system performance. With respect to the latter, Hydro One's service territory includes rugged terrain and extensive foliage that could block meter signals from reaching the systems, depending on the season. Communication systems in one region may work well in the fall and winter when most trees are bare of leaves, for example, but it may not function properly in the spring when trees have new leaves.
  - In December 2013, a ratepayer complained about receiving estimated bills for seven months, ranging from $400 to $500 per month, which was about two to three times higher than the previous monthly bills. Hydro One found that the smart meter was working properly, but it could not capture actual meter readings because its communication system was not producing a signal. Hydro One then corrected the over-estimated bills and credited the ratepayer for about $1,300 against future bills.
  - In December 2013, another ratepayer complained about receiving high estimated bills for nine months. Hydro One found that the bills were based on estimates rather than actual meter readings because the smart meter was not communicating with the system. Hydro One then cancelled the over-estimated bills and issued a credit of about $2,700 to the ratepayer.

- **Mixed or Cross-Metering Issues:** Ratepayers were billed based on errors arising from smart meters connected to wrong addresses during installation. Hydro One indicated that these issues also existed prior to the installation of smart meters but occurred rarely. Most ratepayers did not notice these issues because the amount of the errors was usually not significant; in other cases, however, they were. For example:
    - In response to a January 2012 query from a ratepayer about a high bill, Hydro One found that four smart meters in the same building had been mistakenly wired into the wrong addresses, and that the ratepayer who complained had been overbilled by about $1,000.
    - In response to an enquiry from another ratepayer in April 2013, Hydro One found that a smart meter in an apartment was erroneously connected to another address, and that the ratepayer was overbilled by about $200 from November 2012 to March 2013, when the smart meter was incorrectly connected.
- **Seasonal High Bills:** Unlike other distribution companies, Hydro One has wider geographic coverage and more seasonal ratepayers who own residential properties, such as cottages in rural or remote areas, in addition to their primary residence. Even though seasonal ratepayers used their properties mainly on weekends and holidays, they still received high electricity bills. For example, in February 2014, a ratepayer complained of bills totalling $7,000 a year on a cottage that was only used six months a year. The ratepayer attributed the high bills to a faulty smart meter, but Hydro One found that the smart meter was functioning properly. We identified other similar complaints that were caused by one or all of the following reasons:
    - The Electricity Charge on seasonal ratepayer bills rose because of the increases of all three TOU rates (see section **Significant Impact of Global Adjustment on Time-of-use Rates Not Transparent to Ratepayers**).
    - The Delivery Charge to seasonal ratepayers was higher than for typical residential ratepayers because delivering power to remote seasonal properties through forests and around lakes requires more infrastructure, such as poles, lines and transformers, and is therefore more expensive than service to more populated areas.
    - Seasonal ratepayers were surprised by the unanticipated consequence of billing changes after smart-meter installation. For example, before installing smart meters, Hydro One would issue four bills a year to seasonal ratepayers—one based on an actual meter reading carried out by Hydro One staff at the ratepayer's premises, and three based on estimates. After the installation of smart meters, which enable TOU pricing to measure the exact time when electricity is used, seasonal ratepayers began to receive much higher bills in the summer and lower bills in the winter.

At the time of our audit, we noted that Hydro One had been taking some actions to resolve the existing billing issues. For example, Hydro One was improving its training to customer-service staff; providing refund options (a cheque or a credit on account) to ratepayers who were overbilled; waiving late payment charges; and not sending disconnection notices to ratepayers who experienced billing issues caused by Hydro One.

RECOMMENDATION 2

To ensure that the combination of smart meters and time-of-use (TOU) pricing is effective in changing ratepayer electricity-usage patterns to reduce peak electricity demand and related infrastructure costs, and that ratepayers understand the impacts of TOU pricing on their electricity bills, the Ministry of Energy should work with the Ontario Energy Board and/or the distribution companies to:

- evaluate TOU pricing design, including TOU rates, TOU periods and the allocation of the Global Adjustment across the three TOU rates;
- monitor trends in ratepayer electricity consumption to evaluate the effectiveness of TOU pricing over time; and
- disclose the components of the TOU rates (electricity market price and Global Adjustment) separately on electricity bills so that the impact of the Global Adjustment is transparent to ratepayers.

MINISTRY RESPONSE

As established in the *Ontario Energy Board Act, 1998* and prescribed in Ontario Regulation 95/05, the OEB is responsible for setting rates for residential and small business customers on the Regulated Price Plan (RPP), which includes time-of-use (TOU) pricing.

TOU rates continue to evolve as the province balances both system and customer benefits, and as we learn more about how consumers are responding to TOU rates.

Further analysis is under way and the Ministry looks forward to the OEB's planned review of the RPP and TOU pricing that is currently under way.

The OEB's RPP review is timely in that it will build on the robust analysis of the actual impacts of TOU prices in Ontario that have been completed by the OEB and OPA.

OEB RESPONSE

The OEB is undertaking a review of TOU pricing. That review will consider all of the matters identified by the Auditor General, including the structure of the TOU periods, the TOU prices, and the forecasting of the costs and the Global Adjustment to be recovered in those prices. We anticipate that this review will be completed during the OEB's 2014/15 fiscal year. The OEB would be pleased to work with other agencies and with the Ministry regarding any further review of TOU prices that the Ministry may consider appropriate in the circumstances.

RECOMMENDATION 3

To ensure that ratepayer concerns are addressed properly and in a timely manner, and that clear, timely and accurate bills are issued to ratepayers, the Ministry of Energy should work with the Ontario Energy Board, Hydro One and other distribution companies to:

- improve tracking of the nature and details of ratepayer enquiries and complaints to identify and monitor common or recurring concerns;
- better educate ratepayers about the impacts of time-of-use (TOU) pricing and other factors on electricity bills, as well as the root causes of potential metering or billing issues and what is being done to address them; and
- identify and fix any problems with their billing systems and local communication systems on a timely basis, and monitor the performance of those systems over time to reduce ratepayer complaints triggered by these problems.

MINISTRY RESPONSE

In accordance with the *Ontario Energy Board Act, 1998*, the OEB is responsible for protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

In line with these objectives, the OEB has made customer focus one of four principal outcomes for local distribution companies (LDCs) as part of its Renewed Regulatory Framework for Electricity.

The Ministry welcomes the introduction of specific metrics related to customer satisfaction as part of its scorecard to measure and benchmark LDC performance on an annual basis.

In particular, from 2014 on, LDCs will be required to report to the OEB on their effectiveness at addressing customer complaints, customer satisfaction survey results and performance with respect to targets for billing accuracy.

The Ministry will ask the OEB to consider whether any additions or revisions to its new framework are required in light of this recommendation.

HYDRO ONE RESPONSE

Hydro One serves over 1.2 million ratepayers across Ontario and issues over 1 million bills monthly. The implementation of Hydro One's new billing system in May 2013 has led to billing issues for about 6% of its customers. Hydro One has been working to communicate with ratepayers and make them aware of its plans to fix the technical issues and improve customer service. At the time of this audit, approximately 1.8% of customers were impacted. Since February 2014, Hydro One has taken several actions to improve its customer service, including:

- reducing the number of ratepayers who have not received a bill for a prolonged period of time to 0.8%, improved from 5%;
- decreasing the number of ratepayers who have received only estimated bills for a prolonged period of time (currently 1% of Hydro One's customer base);
- introducing a 10-day commitment for resolving customer issues, with a resolution within 10 days or by a promised date;
- changing call-centre training, increasing the number of customer-service-centre agents, and introducing new policies such as interest-free payment plans for customers who have received bills covering long billing periods and waived service charges for ratepayers affected by billing issues;
- adding a new section to Hydro One's website to improve ratepayer understanding of billing and metering issues; and answer ratepayers' common questions on high bills, the impact of cold weather on electricity consumption, meter readings, meter accuracy, smart meters and the smart-meter network;
- enhancing customer call tracking to identify and resolve emerging issues;
- exploring the implementation of a new customer commitment tracking and monitoring solution;
- establishing a Service Champion Advisory Panel; and inviting external experts to provide advice to Hydro One's president and CEO, review Hydro One's customer-service performance, and make performance results public; and
- continuing to fix and monitor the technical problems with its new billing system, improve call centre staff capabilities to address customer service needs, and resolve the associated complaints fairly and promptly by providing payment arrangement options and waiving late payment charges or any other penalties to ratepayers who were affected by these technical problems.

Billing Impacts of Delivery Charge on Ratepayers

There are three major types of costs associated with Smart Metering: capital costs (for meters, communication infrastructure, installation and data systems); ongoing operating costs for meter reading and services; and stranded costs for scrapping old analog meters. These costs are recovered from ratepayers though the Delivery Charge, which is the second largest component of a typical ratepayer electricity bill, and which varies from one distribution company to another, as illustrated in **Figure 7** and **Appendix 2**.

Variations in Delivery Charge between Distribution Companies

As illustrated in **Figure 7**, a typical residential electricity bill varies between $108 per month and $196 per month, depending on where the ratepayer lives and which distribution company provides the service. Of the four categories of charges (Electricity, Delivery, Regulatory and Debt Retirement) that make up the electricity bill, the Delivery Charge accounts for the largest variation in costs among distribution companies, ranging from about $25 a month to $111 a month, with the average at about $44 per month, as shown in **Figure 7** and **Appendix 2**.

In 2012, the Minister of Energy established the Ontario Distribution Sector Review Panel to advise the government on how to improve efficiency in the distribution companies with the aim of reducing the cost to ratepayers of electricity distribution. The panel's research and analysis showed that the current approach to delivering electricity has been costing ratepayers more than it should. In particular, compared to their larger counterparts, smaller distribution companies tended to have higher per capita operating costs, which were passed on to ratepayers through the Delivery Charge line on electricity bills. As a result, ratepayers of smaller distribution companies paid more for their electricity than ratepayers of larger distribution companies. Given the varying sizes of the distribution companies, and their varying Delivery Charge, the panel's key recommendation was to merge the existing distribution companies into eight to 12 larger ones to improve cost-efficiency and ensure price stability, fairness and value for money in the electricity-distribution sector. The panel expected that consolidation would help reduce sector-wide operating costs by 20% in areas such as customer service, billing, facilities maintenance and administration.

However, we noted that the panel excluded the two largest distribution companies with high costs, Hydro One and Toronto Hydro, when comparing the costs of different distribution companies. Given that these two distribution companies have Delivery Charges higher than the provincial average, it would be worthwhile for the Ministry, in conjunction with the OEB, to study the cost implication for ratepayers from consolidation to reduce the variations in distribution-company costs.

Variations in Smart-metering Costs between Distribution Companies

The distribution companies recover all costs associated with the implementation and operation of their smart-metering systems from ratepayers through the Delivery Charge line on electricity bills, as discussed in the section **Variations in Delivery Charge between Distribution Companies**. There are 73 distribution companies across Ontario, each responsible for procuring, installing and operating smart-meter systems. Each distribution company negotiated with different vendors to procure systems for their regions. As a result of the different costs incurred by distribution companies, we noted that the average cost per meter was about $190, but varied significantly, ranging from $81 per meter at one distribution company to $544 per meter at another. Such wide variation was due mainly to geographical issues in service areas and the degree of upfront expenses, such as project-management and system-integration costs. These two factors were particularly significant at Hydro One, Ontario's only provincially owned distribution company.

At the time of our audit, we noted that the costs incurred by Hydro One in implementing its smart-metering project were significant. In December 2006, Hydro One's Board of Directors approved $670 million for the project. By the end of 2013, Hydro One had spent over $660 million (including about $490 million on procurement and installation of smart meters and associated communication systems, and about $170 million on system development, integration and automation), which was about 50% of the $1.4-billion total province-wide implementation cost—and more than the other 72 distribution companies combined (see the section **Ineffective Implementation and Oversight of Smart Metering Initiative**). However, Hydro One installed 1.2 million smart meters, which represents only about 25% of the 4.8 million smart meters installed in Ontario. Of the $660 million spent by Hydro One, our review of the OEB's records noted that about $440 million has yet to be reviewed and approved by the OEB.

Hydro One's high costs were partly the result of installing smart meters and establishing communications infrastructure across its large and diverse geographic service area, which includes a mix of urban, rural and remote regions. Another factor was the high contract fee paid to a private-sector vendor for system integration.

In August 2007, the OEB also noted that the cost incurred by Hydro One at that time to implement its smart-metering project was already high compared to other distribution companies. The OEB indicated that a special comment was warranted with respect to Hydro One's substantial expenditures on a contract for project management with a private-sector vendor. In particular, the OEB reported a concern raised by one stakeholder group: Hydro One had substantial internal management resources and was likely the most experienced distribution company in dealing with big projects, so it was hard to understand why it had to retain the vendor at such a large contract cost. At the time of our audit, we reviewed the contracting process and noted the following:

In March 2005, Hydro One issued a Request for Proposals (RFP) to select vendors in four areas: smart meters, communications, meter-data management, and system integration (including project management and various consulting services associated with back-office functions and operations).

With respect to the system-integration contract, eight vendors bid on the contract, and Hydro One set up an RFP Evaluation Team to assess each proposal. We noted that Hydro One did not effectively manage its vendor-selection process, governance structure and contract costs. Specifically:

- The proposals submitted by different vendors were not comparable, and so it was inappropriate to assess them together. In particular, not all vendors submitted prices up to 2010. When we asked for more details and explanation, Hydro One management said they could provide only speculation and anecdotal responses, because the key employees in the RFP Evaluation Team who worked on the initial stage of the project were no longer with Hydro One. When we interviewed these former employees, they confirmed that, apart from the RFP Evaluation Team's scoring sheet, there was no other documentation on file to explain how the scores were assigned.
- The RFP Evaluation Team selected the system-integration vendor based on several criteria, including price. However, pricing evaluation was not based on the overall contract cost. Hydro One explained that since the smart-metering project would span multiple years based on new technology, the overall contract cost could not be fixed due to the "unknown nature of all the business requirements at the time of the RFP." An appropriate RFP process would require Hydro One to understand and know more about what it wants in its smart metering project, and to specify the requirements for the vendors in sufficient detail so that they could develop an approach to the project. Granting a contract through the RFP process without acquiring enough knowledge about the business requirements could lead to risks of significant cost increases due to change orders. Carrying out a Request for Information (RFI) process, which is designed to collect more information from a broad base of potential vendors prior to the RFP procedure, would help reduce such risks, particularly for a project of this size involving emerging technology.
- In April 2005, Hydro One selected the system-integration vendor. Since then, Hydro One entered into multiple contracts with this same vendor, and approved a number of change orders. The costs associated with these contracts have increased significantly, which in

turn contributed to Hydro One's higher cost per meter than other distribution companies. Specifically:

- At the time of our audit, the total contract cost paid by Hydro One to the vendor exceeded $125 million. Our review of Hydro One's board minutes noted that the board received no specific details on contract fees paid to this vendor. Hydro One explained that the board delegated the responsibility to oversee cost details to Hydro One management. Hydro One also indicated that it managed the contract and project execution according to a program governance plan. However, our review of this plan noted that it was developed by the vendor and did not include Hydro One's board in the governance structure.
- The initial contract set the fee at a maximum of about $1.1 million, and specified that the scope was to support the rollout of 25,000 smart meters, and to continue design, proof-of-concept and planning activities. The contract ended up supporting the deployment of just 2,000 smart meters, but the actual fee paid by Hydro One amounted to $1.7 million, which included additional costs arising from change requests and reimbursements for travel and other expenses.
- Hydro One, as a Crown corporation, is required to follow the government's procurement policy, which says that any contract between the organization and a successful vendor must be formally defined in a signed written document before goods or services are provided. However, Hydro One signed the initial contract with the vendor on April 25, 2006, three months after the vendor had already started work. Similarly, a second contract was signed on August 31, 2006, two months after the vendor had already commenced work.
- After the first two contracts, Hydro One signed multiple contracts with the same vendor from 2007 to 2010 without a competitive process, even though both the initial and second contracts stipulated that Hydro One had the option to look for other suppliers to complete subsequent work. If Hydro One did not use the same vendor again for subsequent work, both the initial and the second contracts specified that Hydro One would have to pay an additional $462,000 and $650,000 respectively that the vendor had initially offered to Hydro One as a discount, and could not use certain products delivered by the vendor for any RFP or other procurement processes in the future. Hydro One explained that the smart-metering project was a multiphase one, with each phase proceeding on completion of the previous phase and at the sole discretion of Hydro One. Hydro One further indicated that since the initial contract had been awarded through a competitive process, there was no requirement to conduct separate competitive processes for subsequent phases.

Additional Costs of Implementing Smart Metering

Apart from smart-meter capital and operating costs, there were other expenses relating to implementation of Smart Metering, including the disposal of analog meters and the future replacement of smart meters, that will have a significant impact on electricity bills.

The installation of about 4.8 million smart meters in Ontario rendered millions of conventional analog meters obsolete, making it necessary to retire and dispose of them sooner than planned. The distribution companies we consulted said the analog meters they had to scrap were still in good shape and could have been used for another five to 16 more years. The expense of scrapping analog meters became part of the so-called stranded costs, added to the costs of procuring, installing and operating smart-metering systems. The OEB allows distribution companies to fully recover stranded costs from ratepayers through the Delivery Charge on electricity bills. As of January 2011, total stranded costs would be about $400 million, which represents the net book value of the obsolete analog meters as reported in the 2005 OEB implementation plan. As such, this $400 million more reliably captures stranded costs than the $185-million amount in stranded costs that the distribution companies had reported in their smart-meter-cost-recovery applications to the OEB at the time of our audit. In our view, this $185-million amount is incomplete because it represents only the costs the distribution companies are recovering through the application process to the OEB but not the costs that they are recovering through other means, such as writing off the value of their analog meters outright and accelerating the depreciation of their analog meters.

Apart from the stranded cost, another additional cost is related to the replacement of smart meters, which will likely further increase the Delivery Charge on electricity bills because smart meters would be subject to earlier and more frequent replacement than analog meters. The estimated useful life for a typical smart meter is 15 years, compared to 40 years for an analog meter. The distribution companies we consulted said the 15-year estimate is overly optimistic because smart meters:

- are subject to significant technological changes, making it difficult to maintain hardware and software for the first-generation meters, which do not have the advanced functions of newer models;
- have complex features, such as radio communications and digital displays, which are subject to higher malfunction and failure rates;
- are similar to other types of information technology, computer equipment and electronic devices in that they are backed by short warranty periods and require significant upgrades or more frequent replacements as the technology matures; and
- will likely be obsolete by the time they are re-verified as required by the federal agency Measurement Canada every six to 10 years.

Costs relating to replacements will be subject to OEB review and approval. If the OEB does not allow the distribution company to recover these costs from ratepayers, the distribution company will seek recovery through other means (for example, passing the costs on to taxpayers and/or reducing the dividends that the distribution company pays to the municipality). At the distribution companies we visited, we noted cases of mass replacements of smart meters triggered by technological advances and malfunctions. For example:

- In 2013, one large distribution company notified the OEB that 96,000 first-generation smart meters installed in 2006 had to be replaced prior to their normal retirement date to take advantage of improved functionality provided by updated technology. The new meters have 10 times the memory retention of first-generation meters, and provide a "last gasp" function that allows them to detect imminent power outages. The distribution company forecast that 37,000 first-generation meters would be replaced by the end of 2020, and projected a $2.5-million loss on disposal of these older smart meters. The total cost of replacing these meters was set at $11 million.
- In 2012, another large distribution company identified a communication defect in a specific batch of 71,000 smart meters, and had to replace them all regardless of whether they malfunctioned, because they would eventually fail. The distribution company had already replaced about 62,000 of them and expected to complete the job by the end of 2014. From 2013 to April 2014, the distribution company incurred $8.7 million in replacement costs, but it expected to recover at least $2.3 million of that cost from the vendor under the commercial terms of the warranty.

RECOMMENDATION 4

To ensure that the unanticipated costs incurred by distribution companies in implementing the Smart Metering Initiative are justified, and that any significant cost variations among distribution companies are adequately explained, the Ontario Energy Board should perform detailed reviews of distribution-company costs, including an analysis of cost variations for similar services among different distribution companies.

OEB RESPONSE

The OEB has reviewed the prudence of smart-meter costs incurred by most distribution companies through the OEB's hearing process. These reviews took into account the requirements of Ontario Regulation 426/06, the costs incurred by the distribution companies seeking approval and the variations of the costs incurred by different distribution companies. Accordingly, the OEB does not anticipate undertaking additional analysis of those smart-meter costs that have already been reviewed through the OEB's hearing process. However, several distribution companies, including Hydro One, have not yet applied for recovery of all of the smart-meter costs they have incurred. Once those distribution companies apply for such recovery, the OEB will review the prudence of those costs in accordance with the factors set out above.

RECOMMENDATION 5

To improve cost-efficiency of the distribution companies and reduce variations in distribution companies' costs, the Ministry of Energy, in conjunction with the Ontario Energy Board, should formally conduct a cost-benefit analysis into consolidating distribution companies as recommended by the Ontario Distribution Sector Review Panel.

MINISTRY RESPONSE

The Minister of Energy has committed that government will not legislate or force consolidation within the distribution sector. The government is focused on delivering ratepayer savings through voluntary consolidation on a commercial basis and in the best interest of ratepayers.

The government sought input from the local distribution companies (LDCs) to create efficiencies and deliver savings to ratepayers while at the same time positioning the distribution sector to meet the challenges of the future. The government continues to challenge LDCs to do more to improve efficiency and reduce costs for ratepayers.

Hydro One and its large distribution customer base can act as a catalyst for consolidation by seeking acquisition and partnership opportunities. The government expects that Hydro One will only pursue opportunities that are economically viable and in the best interest of ratepayers.

Any change of ownership in the local distribution sector is subject to Ontario Energy Board approval.

OEB RESPONSE

The OEB has undertaken a number of initiatives to improve the cost-efficiency of distribution companies and to address any regulatory barriers to consolidate the distribution companies. The OEB would be pleased to work with the Ministry regarding any further cost-benefit analysis of distribution-company consolidation that the Ministry may consider appropriate in the circumstances.

RECOMMENDATION 6

To ensure that any future project is implemented cost-effectively and in compliance with sound business practices, Hydro One should review and improve its contracting and procurement activities, such as retaining adequate documentation to justify vendor selection and evaluation and acquiring enough knowledge about a project's business requirements before issuing a Request for Proposal, to minimize the risks of significant contract-cost increases.

HYDRO ONE RESPONSE

The Request for Proposal (RFP) process for Hydro One's smart-metering project was completed in April 2005. Subsequent to the RFP process and the Auditor General's audit on Hydro One's Acquisition of Goods and Services in 2006, Hydro One developed an evaluation guideline, which requires documentation of detailed notes to substantiate the evaluation scores.

Hydro One agrees that it is subject to the government's procurement directives. Hydro One has complied with such directives and associated amendments since the first directive was issued in July 2009. In 2009 and 2010, Hydro One also changed its internal policies to comply with the government's travel and expense and procurement directives. For example, Hydro One no longer reimburses its consultants for meals, hospitality or incidentals, and continues to reimburse expenses related to flights, train and car travel and hotel rooms only if such expenses are agreed to in the contracts and pre-approved by Hydro One.

Hydro One also agrees that a Request for Information (RFI) process is a useful tool to assess the market, determine business requirements, and/or estimate project costs. Responses to RFIs contribute to the content of an eventual RFP document. The RFI is a procurement tool that Hydro One now employs.

Smart-meter Data Processing Systems and Costs

Data collection and management is an important component of Smart Metering to ensure that accurate and timely meter-reading data is available from which to prepare TOU-based bills for ratepayers.

In July 2006, the government appointed the Independent Electricity System Operator (IESO) as co-ordinator of the Smart Metering System Implementation Program. A key IESO responsibility was to establish the Meter Data Management and Repository (provincial data centre), to provide a common and central platform for processing, storing and managing smart-meter data to support TOU pricing.

In July 2007, the government designated the IESO as a Smart Metering Entity, making it responsible to manage the development, implementation and operation of the provincial data centre, and to facilitate the integration of smart-meter data within the centre. The aim was to enable distribution companies to bill ratepayers accurately for consumption. The data flow between the distribution companies and the IESO within the smart-metering system is illustrated in **Figure 14**.

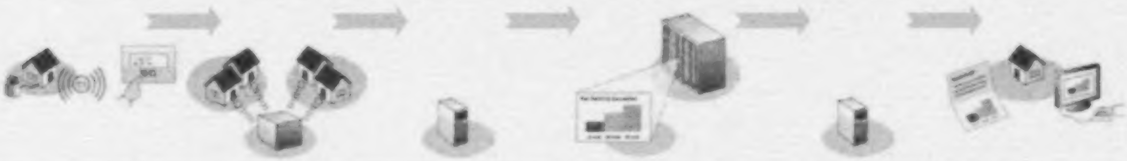
Ratepayers Charged for Redundant or Unused Provincial Data Centre Services

The *Energy Conservation Responsibility Act, 2006*, permits the IESO to recover costs associated with the development, implementation, and operation of the provincial data centre, as well as the integration of the distribution companies into the provincial data centre. In March 2013, the OEB approved an IESO application to recover from all residential and small-business ratepayers the $249-million cost for the period from 2006 to 2017 (including $100 million in actual costs from 2006 to 2012 and the $149-million projected costs from 2013 to 2017) through a new Smart Metering Charge (Charge) of 79¢ a month. This monthly Charge has been included in the Delivery Charge on electricity bills

Figure 14: Smart Metering System and Data Flow in Ontario

Source of data: Independent Electricity System Operator (IESO)

73 Local Distribution Companies			IESO	73 Local Distribution Companies	
Smart Meters	**Data Collector**	**Data Transfer**	**Data Processing***	**Billing System**	**Data Access**
Smart meters installed by a distribution company track hourly electricity usage data.	Data is sent by wireless connection, phone or power line to a regional collector owned by the distribution company.	Regional collector relays data to a system operated by the distribution company.	Provincial data centre collects data from distribution company and calculates electricity usage during on-peak, mid-peak and off-peak hours.	The distribution company receives data from the provincial data centre and prepares electricity bills from its billing system.	Ratepayers have access to their data through electricity bills and online through distribution company's website.



* Almost all of the distribution companies have also used their own systems to process smart-meter data (before transmitting it to, or after receiving it from, the provincial data centre) for billing purposes, as illustrated in the section *Duplication of Systems and Costs.*

since May 1, 2013, and will continue until October 31, 2018.

About 4.8 million smart meters have been installed by distribution companies across Ontario, but approximately 812,000 of them, or about one in six, have not transmitted any data to the provincial data centre for processing. However, these 812,000 ratepayers still have to pay the monthly Charge of 79¢, totalling about $42.1 million up to October 2018. Specifically:

- In August 2008, one large distribution company implemented its own system to process smart-meter data, with functions similar to the provincial data centre. In April 2009, the Ministry and this distribution company signed a Letter of Understanding allowing the company to use its own system on an interim basis to accelerate the introduction of TOU pricing. The distribution company initially agreed to begin transmitting its smart-meter data to the provincial data centre by the end of 2010. In February 2013, the company deferred its plan for full integration with the provincial data centre to the end of 2015. Currently, this company has about 700,000 ratepayers with smart meters, but still has not transmitted any data to the provincial data centre. While these 700,000 ratepayers have never benefited from the provincial data centre, each still has to pay the 79¢-a-month Charge; they have paid a total of about $7.7 million up to mid-2014, and will pay $28.6 million more by October 2018. On top of the monthly Charge, these ratepayers also cover the cost of the distribution company's own data system.
- Another large distribution company has about 112,000 ratepayers with smart meters, but has not transmitted any data to the provincial data centre due to internal network connectivity issues with the company's smart-metering system. Although these 112,000 ratepayers have never benefited from the provincial data centre, they must also pay the monthly Charge of 79¢—a total of $1.2 million up to mid-2014 and another $4.6 million by October 2018.

Duplication of Systems and Costs

The *Energy Conservation Responsibility Act, 2006* and Ontario Regulation 393/07 designated the IESO as the Smart Metering Entity, with "exclusive authority" to carry out the following functions through development and operation of the provincial data centre:

- collect, manage and store meter data;
- perform validation, estimating and editing activities to identify and account for missed or inaccurate meter data;
- operate one or more databases to facilitate collecting, managing, storing and retrieving meter data; and
- prepare data that is ready for use by distribution companies to bill ratepayers.

In February 2007, the Program Definition Document, which established the responsibilities for the Ministry and the IESO in the design and delivery of provincial data centre functionality, also stated that "centralization of the [provincial data centre] functions will ensure a standardization of data validation, estimating and editing processes across the province and facilitate a cost-effective implementation of such processes."

However, when the IESO began developing the provincial data centre in 2007, some distribution companies had already procured and begun to install their own smart meters and associated systems, which varied from one company to another. As a result, we noted that the use of the provincial data centre as a central system has not been cost-effective, because most of the distribution companies have used their own systems to process smart-meter data (before transmitting it to, or after receiving it from, the provincial meter data management system) for billing purposes.

In interviews with and surveys of distribution companies, we found that 96% have been using their own systems to process smart-meter data, and 88% said their own systems and the provincial data centre perform similar functions, resulting in redundancy. For example, before transmitting data to the provincial data centre, the distribution companies use their systems to perform data validation, estimating and editing services—all key functions of the provincial data centre.

The costs of this duplication—one system at the provincial level and another locally—are all being passed on to ratepayers. The monthly operating cost associated with each distribution company's own system, about 21¢ per meter on average, is being borne by ratepayers on top of the 79¢ monthly Smart Metering Charge (see the section **Ratepayers Charged for Redundant or Unused Provincial Data Centre Service**).

Based on our review of comments submitted by distribution companies and stakeholders in June 2006, during the Ministry's consultation, we noted consistent concern about system duplication. Examples of comments:

- "Centralization of part of the customer billing functions and accountabilities as proposed are unnecessary and incomprehensible given the complexities and issues that give rise to exceptions in determining meter reading and billing quantities on a daily basis."
- "Vesting that responsibility [validation, editing and estimating (VEE) function of smart-meter data] in the[provincial data centre] is tantamount to duplication of efforts and operational inefficiencies that will lead, in turn, to incremental costs."
- "The customers will call us when they have questions or problems. It is critical that the [local distribution companies] have free and open access to our customer data, the right to archive data for billing and operational usage, and continue to be the sole point of contact for our retail customers."
- "[Local distribution companies] have never been given a reasonable explanation as to why the data needs to be gathered, stored and redistributed back to [local distribution companies] from such a massive central storage base… Customers will be calling their local distributors for information that will be

primarily housed at a central [provincial data centre]."

- "Validation, editing and estimating (VEE) will be performed centrally. This central assumption is of great concern to [local distribution companies]. As the [local distribution company] has the local customer relationship and knowledge, it is in the best position to know the unique specifics of their individual customers and therefore provide the most accurate edits and estimations of customer data."
- "As the LDCs' Customer Information System (CIS) is the source of the relationship between customer, location and meter, CIS will now also have to manage that relationship including the new [provincial data centre]. This will require programming changes within CIS systems... This approach seems to be one which would result in significant duplication of data in order to maintain these relationships."

Significant System Development and Integration Challenges

Tight and aggressive timelines set by the government, as noted in the section **Governance and Oversight of Planning and Implementation**, along with the complex structure of Ontario's electricity sector involving numerous distribution companies, have created significant challenges in the system-development and integration aspects of implementation of Smart Metering.

Aggressive Smart Metering Implementation Timelines

According to the OEB's 2005 implementation plan for Smart Metering, many stakeholders expressed concern over an aggressive timetable that could lead to mistakes and higher costs. The OEB plan also warned that Smart Metering was both challenging and complex, requiring an intense and well-co-ordinated effort between key players over several years, plus the co-operation of ratepayers.

We found that aggressive timelines created challenges in the development of the provincial data centre and its integration with different systems at the distribution companies. For example, senior IESO management indicated that the timelines were tight from the start and that development of the provincial data centre was a large undertaking being done too quickly, especially in 2007 and 2008, when the IESO encountered software and technical issues. The IESO expressed concerns about the tight timelines to the Ministry, but there was no change to the original summer 2007 deadline. The IESO did not meet that deadline, and delivery of the provincial data centre was delayed to March 2008. Some distribution companies had started installing smart meters for ratepayers prior to 2007. The provincial data centre was not ready to process smart-meter data for TOU pricing when the first smart meter went online.

The OEB also indicated that 40 out of 73 distribution companies applied for extensions to their mandated implementation dates of TOU pricing due to operational or technical problems, including delays in integrating with the provincial data centre and data-quality issues with certain smart meters.

In addition, 40% of the distribution companies we consulted ranked "implementation timelines" as one of the top three challenges (see **Appendix 1**). Some of the distribution companies commented that:

- "The province should have provided more time for testing and implementation of smart meter technology as opposed to rushing unproven technology into service."
- "Integration with the [provincial data centre] presented challenges as the system design and timelines continued to evolve during the implementation."
- "Meeting timelines was difficult due mainly to integration challenges."
- "Implementation timelines were aggressive given all the testing and paper-work that was required."

Complicated Structure of Electricity Sector for Smart Metering Implementation

In other jurisdictions, mass deployment of smart meters was carried out by only a few distribution companies, or even just one. The challenge in Ontario was that 73 different distribution companies were each responsible to purchase, install, operate and maintain smart meters, as well as to bill ratepayers.

The fact that a relatively large number of distribution companies operate in Ontario's electricity sector has made it challenging to ensure cost-efficient implementation of Smart Metering, in part because it required significant system integration between the provincial data centre and different smart-metering systems as well as billing systems at individual distribution companies. To ensure compliance with system interface and data-transfer requirements, each distribution company had to upgrade its existing systems, or acquire new ones, and perform a series of hardware and software tests. Specifically, we noted that:

- Seventy-five per cent of the distribution companies we consulted ranked "data management and system integration" as one of the top three challenges, and 83% said it was difficult and costly to integrate their systems with the provincial data centre (see **Appendix 1**).
- Sixty per cent of distribution companies indicated that changes to the provincial data centre required them to implement "frequent system changes and upgrades." The IESO said that between 2009 and 2012, three major changes were made to the provincial data centre to correct defects, deliver new functions, and address the issue flagged by Measurement Canada (see section **Non-compliance with Measurement Canada's Data Requirements**). Apart from the three major changes, the provincial data centre was also modified during 2008 and 2009 to support changes to distribution company systems and operating practices. Distribution companies that tracked these costs reported spending a total of about $47 million to change their internal systems to ensure proper integration and compatibility with the provincial data centre (see **Figure 15**). Some of the distribution companies commented as follows:
  - "Integration with [the provincial data centre] required multiple upgrades and ongoing testing beyond testing required with the IESO."
  - "Testing with the [provincial data centre] was a very onerous task."
  - "Significant time and effort went into systems integration to ensure proper data flow between the [provincial data centre] and the distribution companies."
  - "This was a costly and time-consuming exercise to integrate the distribution companies' systems and the [provincial data centre]."

Figure 15: System-related Costs Incurred by Local Distribution Companies

Prepared by the Office of the Auditor General of Ontario

Date	Cost Description	Approx. Cost[1] ($ 000)	Report Section (if applicable)
2006–2013	Upgrading local systems to enable the implementation of TOU pricing	47,000[2]	Significant System Development and Integration Challenges
2006–2013	Developing web presentment portals to allow ratepayers to access their electricity use and billing data online	1,100	
2010–2012	Fixing local systems to comply with Measurement Canada's requirements	800	Non-compliance with Measurement Canada's Data Requirements

1. Amount understated because some of the distribution companies we interviewed and surveyed did not separately track these costs. Many of the distribution companies we consulted treated these smart metering-related costs as their normal operating costs and recovered these costs through their regular rate applications to the OEB rather than through their smart-meter-cost-recovery applications.
2. About $40 million of this $47-million amount was incurred by Hydro One.

Aggressive implementation timelines and a complex electricity sector made it challenging to implement Smart Metering smoothly and cost-effectively.

Insufficient Oversight of Provincial Data Centre Costs and Services

The IESO initially contracted in December 2006 with a private-sector vendor, following a competitive bidding process, for the development, implementation and operation of the provincial data centre. That initial contract was for the five years from December 2006 to March 2012, with an option for another two years to March 2014, which it exercised. In December 2012, following a competitive bidding process, the IESO entered into a new contract with the same vendor for another five years, to March 2019, with an option to extend for five more years, to March 2024. The IESO has already paid this vendor about $81.7 million for the period from January 2007 to March 2013. Apart from using personnel supplied by this vendor and internal staff, the IESO incurred about $16 million in costs by the end of 2013 for other consultants to develop, implement and operate the provincial data centre.

Contract Terms for Operating Fee of Provincial Data Centre Not Clear

Our review of the contract fee paid by the IESO to the vendor for operating the provincial data centre showed that the average annual fee of $13.4 million for the two-year extension period between 2012 and 2014 was almost double the $6.8-million-a-year rate of the original contract period for the five previous years.

The IESO attributed a portion of the fee increase to the additional costs associated with the changes made to the provincial data centre. However, we noted that these additional costs were mainly incurred prior to 2012, before the two-year extension, to deal with major changes made to the provincial data centre. The IESO also attributed a portion of the fee increase to the higher number of smart meters. However, the government had set the target of installing smart meters for all residential and small-business ratepayers, so the IESO should have been aware of the number of smart meters that had to be installed.

We noted that the IESO and the vendor negotiated and agreed upon the higher contract fee as a result of the ambiguity of contract terms for the two-year extension period. Specifically, when the IESO prepared in June 2011 to exercise the two-year extension option under the original contract, it discovered an error that resulted in an underestimation of the cost projection for the two-year extension period by $13.9 million. As a result, IESO management informed the Board of Directors that the error stemmed from an amendment that failed to clarify the contract fee applicable to the two-year extension. IESO management also informed its legal counsel that this was an oversight on the part of the vendor, the IESO and their counsels, and that since the vendor had incurred losses on the contract, the "ambiguity around contract extension offered opportunities to improve the vendor's commercial position and stem their losses going forward."

Continued to Contract for Service Not Being Used

Under the original contract, the IESO required the vendor to provide Interactive Voice Response (IVR) service that enables ratepayers to check their electricity usage by telephone. The IVR service was available for use in March 2008, when the provincial data centre began operating. However, only two of the 73 distribution companies chose to register and configure themselves for IVR, and they reported only limited ratepayer use of the service. For example, only 25 ratepayers at these two distribution companies used IVR from February 2012 to March 2013. Even though there has been very little use of IVR since its start-up in March 2008, the IESO still included IVR in the new contract signed with the vendor in December 2012.

While almost 80% of the distribution companies integrated their systems with the provincial data centre in 2011 and early 2012, the IESO indicated that it did not have sufficient information on the actual use of the IVR service prior to 2013. As such, the IESO did not retire IVR until September 2013, and it consequently negotiated a credit of $390,000 to be applied against future deliverables from this vendor. Adequate and proper monitoring of service usage on a timely basis would have terminated the IVR service sooner and eliminated the associated cost, which was not specified in the contracts and could not be estimated.

RECOMMENDATION 7

To ensure that ratepayers are not burdened with the duplicated and ongoing costs of system development and integration, the Ministry of Energy should work with the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and the distribution companies to re-evaluate options around operating the provincial data centre and/or having separate local systems at individual distribution companies in order to determine the cost-effectiveness of various options and avoid continued duplication of systems and costs.

MINISTRY RESPONSE

The Ministry has ensured that the necessary regulatory framework, in particular Ontario Regulations 393/07 and 426/06, is in place to restrict cost duplication for services which are within the exclusive authority of the Meter Data Management and Repository.

The Ministry will continue to investigate opportunities to build on the value already provided by the provincial data centre.

IESO RESPONSE

If requested by the Ministry of Energy, the IESO will work with the Ministry and the OEB to encourage distribution companies' compliance with existing regulation and reduce the reported duplication of the functions that the IESO has exclusive authority over, and that are fulfilled by the provincial data centre.

Similarly, if requested by the Ministry of Energy, the IESO will work with the Ministry and distribution companies to identify and evaluate opportunities for leveraging existing investments and economies of scale of the provincial data centre in order to reduce the operating costs of distributors and costs to the ratepayer.

OEB RESPONSE

The OEB would be pleased to work with the Ministry of Energy and others in any assessment that the Ministry may initiate in respect of options regarding the cost-effective use of the resources of the provincial meter data management system and the local distribution systems.

RECOMMENDATION 8

To ensure that any future province-wide project involving the complex electricity distribution sector is implemented cost-effectively, the Ministry of Energy should work with the relevant electricity sector organizations to set appropriate and reasonable implementation targets and timelines in order to minimize the costs and risks associated with system development and integration for numerous distribution companies.

MINISTRY RESPONSE

The smart meter and time-of-use (TOU) rollout was completed via a partnership approach. Each organization, namely the Ministry, the IESO, the OEB and local distribution companies were responsible for certain aspects of the rollout, and significant consultation took place along the way.

The Ministry will ensure that projects in the electricity distribution sector are rolled out in a prudent, collaborative and cost effective manner.

Smart-meter Data Accuracy and Quality

To minimize billing estimates and adjustments, as well as ratepayer complaints, smart-meter data has to be processed accurately and completely to produce correct and timely billing data.

Non-compliance with Measurement Canada's Data Requirements

Measurement Canada is the federal agency responsible for ensuring that ratepayers receive fair and accurate measurement in transactions involving goods and services, including measurement of electricity consumption and billing. Generally, electricity consumption and billing can be measured using two types of smart-meter data: "register read" or "interval read."

- "Register read," recorded by both analog and smart meters, is the meter's internal memory or external display showing the total cumulative consumption from the date it was installed, similar to a car odometer's record of kilometres travelled. Prior to installing smart meters, distribution company staff manually read analog meters by visiting ratepayer premises. The cumulative meter reading on electricity bills should match the numbers on the meters.
- "Interval read" is logged only by a smart meter, and is a time-based record of electricity usage (hourly or shorter period) by ratepayers.

Measurement Canada requires the cumulative meter reading to be used in calculating the billing amount, and to be displayed on both the meter and the bill. These requirements ensure transparency by providing information on electricity bills that enable ratepayers to look at their meter's display and then reconcile it to the amounts on their bills. However, Measurement Canada advised both the IESO and the Ministry in November 2009 that its requirements were not being met in Ontario, because the cumulative meter reading from smart meters was not being captured by the provincial data centre or by the distribution companies' systems. In January 2010, Measurement Canada reiterated its concerns and instructed the IESO to take corrective action by January 1, 2012. Consequently, both the IESO and the distribution companies changed their systems to address Measurement Canada's concern. The IESO spent $13.7 million to make necessary adjustments to the provincial data centre.

Apart from the IESO, the distribution companies also incurred costs to fix the problem at their end. In August 2010, the IESO indicated to the media that only about 150,000 ratepayers at five distribution companies were affected by this issue. However, we noted at the time of our audit that, in fact, all distribution companies were affected and had incurred additional costs to fix the problem. Of the distribution companies we consulted, only 20 of them tracked their costs for this—a collective total of more than $800,000 to correct the problem (see **Figure 15**). One distribution company noted that the Measurement Canada issue has "negatively impacted the costs associated with [provincial data centre] integration." Another said the billing systems of all distribution companies "had to be re-engineered to remove 'register reads' when the [provincial data centre] was first implemented and then re-engineered again to put the 'register reads' back ... there really seemed to have been a misunderstanding with the Ministry or IESO as the system should have been designed to show 'register reads' right from the beginning."

Questionable Quality and Usefulness of Meter-reading Data

Several limitations in processing smart-meter data by the provincial data centre and the business processes at the distribution companies have affected the quality and usefulness of smart-meter data. For example:

- When distribution companies change or replace meters, they must follow a proper business process that requires them to send two sets of consumption data to the provincial data centre: one set from the old meter and one from the new. Given that some distribution companies did not follow this process, there is no guarantee of the quality and completeness of data they submitted to the provincial data centre, creating a risk that incorrect billing data could be generated.

- Not all smart meters are equipped with technology to notify the provincial data centre when power outages occur. The Ministry also indicated that the provincial data centre is not intended to have a real-time outage management function to help identify blackouts. As a result, ratepayers who lose power during outages could still receive electricity bills based on estimates made by the provincial data centre or the distribution companies. In December 2013, for example, a severe ice storm caused massive power outages in southern Ontario. Based on our review of usage data from one large distribution company affected by the blackouts, some ratepayers with no power still had to pay electricity bills based on estimates of their historical consumption patterns, and the distribution company had to correct the bills in subsequent billing periods.
- Almost all distribution companies have their own systems as noted in section **Duplication of Systems and Costs**. Apart from using these internal systems to process smart-meter data, companies also use it to query and retrieve usage data for ratepayers and for internal analysis. According to half the distribution companies we consulted, they do this because the provincial data centre has limited capabilities for data retrieval and querying. In August 2013, the IESO also reported to its Board of Directors that the provincial data centre was able to manage data queries during its early stage of implementation, but it was not designed to support the expected increases in volume of data-retrieval requests. This has, in turn, reduced the value and usefulness of the provincial data centre, which had been expected to facilitate storage and retrieval of meter data when it was first developed.

RECOMMENDATION 9

To ensure the accuracy, quality and usefulness of smart-meter data, the Independent Electricity System Operator should:

- work with the distribution companies to review the limitations and the billing problems associated with the provincial data centre and the distribution companies' business processes, including improving the procedures of processing smart-meter data during meter replacements and power blackouts, as well as enhancing the data retrieval and querying capability of the provincial data centre; and
- educate the distribution companies about the proper business processes that have to be followed.

IESO RESPONSE

The IESO has provided training sessions for all distribution companies on processing meter replacements and power blackouts within the provincial data centre. The IESO will provide additional training sessions and assistance to those distribution companies that need such training to improve the procedures of processing smart-meter data.

Subsequent to the audit, the IESO enhanced the data retrieval and querying capability of the provincial data centre. Also, the IESO and the Ministry have been working together to develop a business case for a project that will support the evolving needs for data access and retrievals for research and analysis purposes.

Smart-meter Security and Safety Risks

The expanding use of smart meters has led to questions and concerns about possible security risks relating to privacy, and safety risks associated with fire hazards. As part of our audit, we examined these concerns in Ontario.

Insufficient Security and Access Controls on Meter-reading Data

The ability of smart meters to track electricity use on an hourly basis for residential and small-business ratepayers has raised security and privacy concerns regarding unauthorized access to and use of smart-meter data. Smart meters enable the collection of massive amounts of personal electricity-use data, allowing ratepayers and distribution companies—as well as anyone else with access to the data—to see exactly what makes up a ratepayer's electricity use. The smart-meter data could reveal when people are out, daily routines and changes in those routines. As a result, electricity-use patterns could be mined, for example, for marketing and advertising purposes.

In Ontario, about 800 distribution company employees and/or their agents have access to specific functions in the provincial data centre that include viewing and editing meter data through an encrypted interface from any computer connected to the Internet. The IESO's existing controls to prevent and detect unauthorized data access include an annual audit of the provincial data centre by external auditors and an annual risks-and-controls assessment by IESO staff. However, we noted that data security could be improved further. Specifically:

- The provincial data centre automatically grants access to users through a login process that requires a name and password. However, no additional authentication code is required. Based on our research, and consultation with an independent expert in information security and smart metering, the best practice for more secure remote access of privacy-sensitive information is two-step verification. This requires users to provide an authentication code generated by a security device issued to them, in addition to user name and password.
- The IESO has engaged external auditors to conduct an annual audit to provide reasonable assurance that its controls over the provincial data centre are suitably designed and operate effectively. Since this audit is not designed to cover the distribution companies, it is limited to provincial data centre operations and controls specified by the IESO. We noted that data from the provincial data centre could still be exposed to potential security risks at the distribution-company level because:
  - As noted in the section **Duplication of Systems and Costs**, almost all distribution companies we consulted use their own systems to process smart-meter data. Also, about 85% of them indicated that they have not performed any Privacy Impact Assessment (PIA), a formal risk-management tool used to identify the actual or potential effects that a proposed or existing system may have on ratepayer privacy. The PIA is considered a "best privacy practice" for organizations with significant existing or new systems containing personal information.
  - Our review of a sample of 200 staff at different distribution companies who had access to the provincial data centre found that eight who had left the distribution companies did not have their access revoked in a timely manner. The IESO indicated that it is up to distribution companies to advise it when access rights need to be modified or ended. The IESO also said it does not have the jurisdiction, responsibility or ability to review the appropriateness of users to whom distribution companies wish to grant access. Therefore, there

could be security risks at the distribution-company level that the IESO was not aware of and over which it had no control.

Lack of Tracking and Monitoring of Smart Meters-related Fire Incidents

At the time of our audit, we found instances of Ontario ratepayers reporting fires arising from smart meters. From our research, we also noted that other jurisdictions, such as British Columbia, Saskatchewan and Pennsylvania, also reported cases of smart meters catching fire. However, no accurate or complete information on smart meters-related fires was available in Ontario to determine the scope and extent of the problem across the province. Specifically:

- The Office of the Fire Marshal (OFM), Ontario's principal adviser on fire protection policy and safety issues, indicated that it is aware of fires involving smart meters in Ontario, elsewhere in Canada, and in the United States. However, some distribution companies and fire departments do not report such cases to the OFM, so more information is needed to assess the extent of the problem in Ontario. From May 2011 to March 2013, for example, the OFM recorded 14 fires involving either meters or the bases on which they were mounted. However, the OFM indicated that its incident-reporting system could not specifically identify what type of device was involved—analog or smart meter—because it did not collect specific details about the meters. Based on anecdotal evidence, the OFM identified three possible root causes for the fires:
  - old meter base connections may have been loose or otherwise unfit for a seamless exchange to a new smart meter;
  - new smart meters may have been improperly installed; or
  - new smart meters may have had defects that caused electrical failures or misalignment with the old meter base.
- The Electrical Safety Authority (ESA), the agency with a mandate to enhance public electrical safety in Ontario, is delegated by the government to be responsible for the regulation that applies to meter installation. Any meter failure resulting from incorrect installation by the distribution company falls under the ESA's regulatory oversight. In February 2007, and again in October 2012, the ESA indicated that it has been aware of potential fire risks in smart meters, and incidents of property damage involving smart meters and/or meter bases. To address these concerns, the ESA surveyed the distribution companies, asking them to provide information on such incidents. However, the ESA indicated that it has not received sufficient information to conclude on the severity of the issue or the types of meters causing problems. Due to recent smart meters-related fires in Saskatchewan, the ESA started reviewing those incidents in the summer of 2014 to determine if there could be any concerns in Ontario.

The federal Industry Canada department oversees the certification of radio communication devices, including smart meters, which must be tested and certified against Industry Canada standards before they can be sold in this country. At the provincial level, the ESA acts on behalf of the Ontario government, with specific responsibility for electrical safety. As part of its mandate, the ESA administers the Ontario Electrical Safety Code and regulations associated with electricity-distribution-system safety, electrical product safety and licensing of electricians. However, there has been a lack of clarity on the safety standards relating to smart meters at the provincial level. Specifically:

- The ESA indicated that according to an Ontario Electrical Safety Code bulletin in May 2012, federal legislation does not give ESA any jurisdiction over revenue billing devices (i.e., smart meters and associated transformers) and does not require the revenue billing devices to be approved provincially as required by the Canadian Electrical Code or Ontario Electrical Safety Code.

- The ESA further noted that the Ontario Electrical Safety Code applies to meter bases and mounting devices, but not to revenue billing devices such as the actual smart meters. Therefore, smart meters and associated transformers are deemed acceptable if they have an approval number provided by Measurement Canada, a federal agency. However, we noted that Measurement Canada is mandated to ensure the integrity and accuracy of measurement, including electricity consumption and billing data, but not the safety, of measuring devices such as smart meters.

Insufficient tracking and monitoring of smart meters-related fire incidents has made it difficult to determine the scope and extent of the problem across the province as well as to address the problem accordingly, creating safety risks in Ontario.

RECOMMENDATION 10

To ensure that smart-meter data is processed and stored securely, the Independent Electricity System Operator should work with the distribution companies to improve their system and data-security controls in order to prevent and detect unauthorized access to smart-meter data.

IESO RESPONSE

Subsequent to the audit, the IESO introduced new capabilities in June 2014 to help distribution companies manage their users' access to the provincial data centre. The IESO provides the distribution companies with additional information that allows them to identify required changes to their users' access permissions. Based on this additional information, the distribution companies are to notify the IESO of any necessary changes.

In addition, the IESO will review the data-security controls in place at the IESO and the controls that should be in operation at the distribution companies to prevent and detect unauthorized access to smart-meter data. The IESO will also work with the distribution companies to review the "Building Privacy into Ontario's Smart Meter Data Management System" paper published by the IESO and the Information and Privacy Commission of Ontario.

RECOMMENDATION 11

To ensure that potential fire risks of smart meters are addressed appropriately and in a timely manner, the Ministry of Energy should work with relevant entities, such as the distribution companies, the Office of the Fire Marshal and the Electrical Safety Authority, to track and monitor information on smart meter-related fire incidents so as to identify and understand their causes in Ontario.

MINISTRY RESPONSE

The Ministry has not received information from the appropriate authorities or local distribution companies (LDCs) to indicate that there is a safety risk with smart meters in Ontario.

The Ministry will support efforts by the appropriate entities such as the Office of the Fire Marshal, the Electrical Safety Authority and LDCs to ensure that any concerns or incidents related to electricity meter safety are tracked and monitored accordingly.

The Ministry continues to monitor the concerns and actions related to meter safety in Saskatchewan and consider any implications for Ontario.

Appendix 1—Questions to and Responses from Distribution Companies in Ontario

Prepared by the Office of the Auditor General of Ontario

	Responses	
Selected Questions	**% of Distribution Companies Responded "Yes"**	**% of Distribution Companies Responded "No"**
Did your distribution company realize any net savings in operations since implementing the Smart Metering Initiative?	5	95
Did your distribution company conduct any study to examine the bill impact since the implementation of smart meters and time-of-use (TOU) rates?	9	91
Did your distribution company conduct any study to examine the changes of electricity consumption since the implementation of smart meters and TOU rates?	0	100
Does your distribution company have a system, performing similar functions as the central Meter Data Management and Repository, to process smart meter data?	96	4
Did your distribution company perform any Privacy Impact Assessment when implementing the Smart Metering Initiative?	15	85
	% of Distribution Companies Indicated as Concerns	
Please indicate your distribution company's concerns with the Meter Data Management and Repository (provincial data centre)	88% - Redundant functionality with the systems at distribution company	
	83% - Difficult and costly to integrate distribution companies' systems with the Meter Data Management and Repository	
	60% - Frequent changes and upgrades of the Meter Data Management and Repository	
	50% - Limited capacity or capability for data retrieval and query	
	% of Distribution Companies Ranked as Top 3 Challenges	
Please rank the challenges that your distribution company has faced in implementing the Smart Metering Initiative.	75% - Costly data management and system integration	
	44% - Lengthy procurement process	
	40% - Tight implementation timeline	
	% of Distribution Companies Indicated as Top 3 "High Volume" Complaints	
Please indicate the volume (High/Low) of ratepayer complaints relating to smart meters and TOU pricing since the implementation of Smart Metering Initiative in your distribution company.	51% - Increased bills with no savings	
	33% - Limited understanding and information on TOU pricing	
	24% - Limited or no ability to change electricity consumption	

Appendix 2—Delivery Charge on Monthly Electricity Bill by Distribution Company[1]

Source of data: Ontario Energy Board

Distribution Company	Delivery Charge ($)
1. Algoma Power Inc.	59.4
2. Atikokan Hydro Inc.	65.5
3. Bluewater Power Distribution Corporation	45.8
4. Brant County Power Inc.	40.8
5. Brantford Power Inc.	31.8
6. Burlington Hydro Inc.	40.1
7. Cambridge and North Dumfries Hydro Inc.	36.5
8. Canadian Niagara Power Inc. (Fort Erie)[2]	52.6
Canadian Niagara Power Inc. (Port Colborne Hydro Inc.)[2]	53.8
9. Centre Wellington Hydro Ltd.	41.6
10. Chapleau Public Utilities Corporation	53.2
11. COLLUS PowerStream Corp.	34.9
12. Cooperative Hydro Embrun Inc.	39.7
13. E.L.K. Energy Inc.	30.9
14. Enersource Hydro Mississauga Inc.	36.8
15. Entegrus Powerlines Inc.	41.0
16. EnWin Utilities Ltd.	41.6
17. Erie Thames Powerlines Corporation	44.2
18. Espanola Regional Hydro Distribution Corporation	51.1
19. Essex Powerlines Corporation	43.6
20. Festival Hydro Inc. (Hensall)[2]	45.0
Festival Hydro Inc. (Main)[2]	45.6
21. Fort Frances Power Corporation	36.2
22. Greater Sudbury Hydro Inc.	37.9
23. Grimsby Power Incorporated	40.1
24. Guelph Hydro Electric Systems Inc.	41.9
25. Haldimand County Hydro Inc.	57.3
26. Halton Hills Hydro Inc.	39.0
27. Hearst Power Distribution Company Limited	31.7
28. Horizon Utilities Corporation	40.9
29. Hydro 2000 Inc.	43.6
30. Hydro Hawkesbury Inc.	28.0
31. Hydro One (Low Density)[2,3]	110.6
Hydro One (Medium Density)[2,3]	69.5
Hydro One (Urban High Density)[2,3]	54.2
32. Hydro One Brampton Networks Inc.	35.6
33. Hydro Ottawa Limited	40.1
34. Innisfil Hydro Distribution Systems Limited	49.6
35. Kenora Hydro Electric Corporation Ltd.	37.3
36. Kingston Hydro Corporation	41.4
37. Kitchener-Wilmot Hydro Inc.	35.0
38. Lakefront Utilities Inc.	36.7
39. Lakeland Power Distribution Ltd.	53.4
40. London Hydro Inc.	38.3
41. Midland Power Utility Corporation	48.7
42. Milton Hydro Distribution Inc.	40.3
43. Newmarket-Tay Power Distribution Ltd. (Newmarket)[2]	41.7
Newmarket-Tay Power Distribution Ltd. (Tay)[2]	24.9
44. Niagara Peninsula Energy Inc. (Niagara)[2]	39.6
Niagara Peninsula Energy Inc. (Peninsula)[2]	42.7
45. Niagara-on-the-Lake Hydro Inc.	41.8
46. Norfolk Power Distribution Inc.	53.1
47. North Bay Hydro Distribution Limited	40.4
48. Northern Ontario Wires Inc.	51.2
49. Oakville Hydro Electricity Distribution Inc.	43.5
50. Orangeville Hydro Limited	42.3
51. Orillia Power Distribution Corporation	41.3
52. Oshawa PUC Networks Inc.	33.8
53. Ottawa River Power Corporation	36.5
54. Parry Sound Power Corporation	61.0
55. Peterborough Distribution Incorporated	37.4
56. PowerStream Inc. (Barrie)[2]	35.5
PowerStream Inc. (South)[2]	35.1
57. PUC Distribution Inc.	31.7
58. Renfrew Hydro Inc.	37.5
59. Rideau St. Lawrence Distribution Inc.	43.1
60. Sioux Lookout Hydro Inc.	55.0
61. St. Thomas Energy Inc.	39.8
62. Thunder Bay Hydro Electricity Distribution Inc.	33.3
63. Tillsonburg Hydro Inc.	38.6
64. Toronto Hydro-Electric System Limited	46.9
65. Veridian Connections Inc. (Gravenhurst)[2]	52.8
Veridian Connections Inc. (Main)[2]	38.7
66. Wasaga Distribution Inc.	27.3
67. Waterloo North Hydro Inc.	38.0
68. Welland Hydro-Electric System Corp.	41.9
69. Wellington North Power Inc.	50.3
70. West Coast Huron Energy Inc.	55.2
71. Westario Power Inc.	43.8
72. Whitby Hydro Electric Corporation	44.4
73. Woodstock Hydro Services Inc.	45.3

1. This list of 73 distribution companies was based on 2013 Yearbook of Electricity Distributors issued by the OEB. The Delivery Charge data was based on 2014 data from the OEB website.
2. These distribution companies with larger geographic coverage have different Delivery Charge in different regions within their service areas.
3. Hydro One's Delivery Charge varies, depending on the location of ratepayers and the number of ratepayers in an area. The fewer people in the area, the higher the cost of delivering power to that area.

Chapter 3

Ministry of the Environment and Climate Change

Section 3.12 Source Water Protection

Background

Ontario borders on four of the five Great Lakes, has more than 250,000 inland lakes, 500,000 km of rivers and streams, and vast groundwater resources. The Great Lakes are the source of drinking water for over 75% of the population of the province. The remaining population sources its water mainly from other lakes, rivers and aquifers across the province, including approximately 1.6 million Ontarians that depend on private wells to draw their water from underground aquifers.

In May 2000, the drinking water system in the Bruce County town of Walkerton became contaminated with deadly bacteria. Seven people died, and more than 2,300 became ill. The primary source of the contamination was manure that had been spread on a farm near a well that was a source of the town's drinking water. Operations at the water treatment plant did not remove this contamination. In the aftermath of the outbreak in Walkerton, the government established a public inquiry to report on the causes of the tragedy, and to make recommendations to ensure the safety of drinking water across the province.

In January and May 2002, Justice Dennis O'Connor released two Reports of the Walkerton Commission of Inquiry. In his second report, Justice O'Connor recommended the following with respect to the protection of drinking water sources in the province:

> "The first barrier to the contamination of drinking water involves protecting the sources of drinking water. I recommend that the Province adopt a watershed-based planning process, led by the Ministry of the Environment (MOE) and by the conservation authorities (where appropriate), and involving local actors. The purpose is to develop a source protection plan for each watershed in the province. The plans would be approved by the MOE and would be binding on provincial and municipal government decisions that directly affect drinking water safety. Large farms, and small farms in sensitive areas, would be required to develop water protection plans that are consistent with the watershed-based source protection plans."

In response to Justice O'Connor's recommendations, the province enacted the *Clean Water Act* in 2006. The Ontario Ministry of the Environment and Climate Change (Ministry) is responsible for the protection of existing and future sources of drinking water through the administration of this Act.

Soon after the proclamation of the *Clean Water Act*, the Ministry identified 19 source water protection regions in the province, and established a Source Protection Committee in each of these regions to develop, in conjunction with local Conservation Authorities (non-profit organizations mandated to ensure the conservation, restoration and management of Ontario's water, land and natural habitats through various programs), source water protection plans. The plans were intended to assess existing and potential threats to source water, and ensure that policies would be in place to reduce or eliminate these threats. A third of the membership of Source Protection Committees is made up of representatives from local municipalities. A third is made up of representatives from the following sectors: agriculture, industry, aggregates, commerce, tourism and recreation, land developers, golf courses, mining, petrochemical, forestry and transportation. The remaining third is made up of representatives from landowner and lake associations, environmental groups, the public at large, and water specialists.

The *Nutrient Management Act*, proclaimed in 2002, is also important in the protection of source water. The objective of this Act is to manage nutrients (including manure, fertilizer, compost, and sewage and pulp and paper bio-solids) in ways that will better protect the natural environment, including source water, and at the same time provide a sustainable future for agricultural operations and rural development. The application of nutrients to land is essential for soil health and optimal crop yield since they are rich in nitrogen and phosphorus. However, applying more than crops require can lead to a build-up of these nutrients in the soil, which can run off into surface waters or leach into groundwater. This can be detrimental to the environment and ultimately to human health. For example, elevated phosphorus levels contribute to toxic algae growth in water, which can produce a liver toxin that is harmful to humans and impairs fish and wildlife habitats.

For the most part, a regulation under the *Nutrient Management Act* outlines requirements for larger farms that have livestock and produce significant quantities of manure (300 nutrient units per year, which would equate to, for example, manure from roughly 1,800 hogs or 300-900 beef cattle). These farms must use certified individuals to develop strategies and/or plans to adequately manage nutrients stored on farm properties or spread on fields.

The *Nutrient Management Act* is jointly administered by the Ontario Ministry of Agriculture, Food and Rural Affairs and the Ministry of the Environment and Climate Change. The Ministry of Agriculture, Food and Rural Affairs is responsible for certifying and licensing plan developers, and approving strategies and plans, while the Ministry of the Environment and Climate Change is responsible for compliance and enforcement of the Act and its regulations. **Figure 1** is a chronology that summarizes the key events leading to the proclamation of the *Clean Water Act*.

As seen in **Figure 2**, protecting source water is the first line of defence in a multi-barrier approach to protecting Ontario's drinking water. The other elements of this approach include water treatment to remove or neutralize contaminants, maintaining adequate water distribution systems to prevent contaminants from entering the water after treatment, ongoing water testing to detect problems with drinking water quality, and establishing systems that can effectively respond to incidents.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of the Environment and Climate Change (Ministry) had effective systems and procedures to:

- ensure the long-term sustainability of the sources of drinking water in the province;
- reduce health risks and potential future costs by effectively managing and protecting

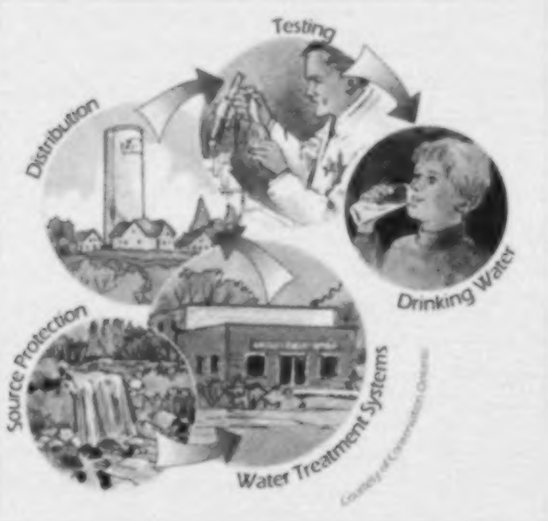
Figure 1: Chronology of Key Events Leading to the Proclamation of the *Clean Water Act*

Prepared by the Office of the Auditor General of Ontario

May 2000	The drinking water system in the Bruce County town of Walkerton became contaminated with deadly bacteria.
June 2000	The Walkerton Commission of Inquiry was set up to examine the contamination of the water supply in Walkerton and to look into the future safety of the water supply in Ontario. Justice Dennis O'Connor was appointed Commissioner.
January 2002	The Walkerton Commission released Part 1 of its report, which detailed the events in Walkerton and the failures that led to the contamination.
May 2002	The Walkerton Commission released Part 2 of its report, in which it made many recommendations for improving the quality of water and public health in Ontario, including recommendations on source water protection.
June 2002	The *Nutrient Management Act* was proclaimed. This Act was not a direct response to the Walkerton tragedy.
October 2006	The *Clean Water Act* was proclaimed in response to Justice O'Connor's recommendations on source water protection.

Figure 2: Ontario's Multi-barrier Approach to Safe Drinking Water

Source of data: Conservation Ontario



drinking water sources in accordance with related legislation; and

- reliably measure and report on its performance.

Senior management at the Ministry reviewed and agreed to our objective and associated criteria.

Our audit work was predominantly conducted between November 2013 and April 2014. We interviewed key program staff and reviewed pertinent documents. As well, we met with the Chairs of a number of Source Protection Committees and representatives from Conservation Authorities and municipalities that were also part of the committees, as well as environmental groups and staff at the Office of the Environmental Commissioner of Ontario, to obtain their perspectives on source protection planning within the province. We also surveyed Source Protection Committees and Conservation Authorities, and visited two water treatment plants in southern Ontario.

We engaged a consultant with expertise in the field of water policy to review the *Clean Water Act, 2006*, the Ministry's framework for developing source protection plans in accordance with the Act, and a sample of plans, and to provide an opinion on whether the framework is consistent with the intent of the legislation and whether the plans, if implemented, would be effective in meeting the intent of the legislation.

Summary

Fourteen years after the crisis in Walkerton, the locally developed source water protection plans envisioned by the Walkerton Commission of Inquiry and legislated under Ontario's *Clean Water Act, 2006*, are not in place to ensure the first level of defence for the safety of drinking water for Ontarians. As well, situations of non-compliance with the *Nutrient Management Act, 2002* and its regulations, and the Ministry of the Environment and Climate Change's (Ministry) weak enforcement activities, increase the risk that source water (water that flows into water treatment plants and wells) in Ontario is not being effectively protected.

There are a number of factors that have contributed to this:

Delays in Approving and Implementing the Source Water Protection Plans

- The Ministry lacks a long-term strategy that addresses funding and oversight of municipalities and Conservation Authorities to ensure the plans, once approved, are implemented; and timely updates of source protection plans to ensure that the local threats to source water identified in the plans, and the policies to address the threats, remain current.
- The Ministry does not have a clear time frame when all plans will be approved. At the time of our audit, 22 source protection plans had been developed by Source Protection Committees for 19 regions within the province that affect over 95% of Ontarians. However, the regions cover only about 14% of the total land mass of the province. At the time of our audit, three of these 22 source protection plans had been approved by the Ministry for regions that have a relatively small number of municipal water intakes that serve about 5% of the province's population (as of September 2014, eight of the plans were approved). Seven of the submitted plans are incomplete because they do not include a detailed water budget study to determine whether there are any threats to water quantity within the respective regions.
- There has been significant time spent on mediation discussions between Source Protection Committees, ministries and other government organizations such as the Technical Standards and Safety Authority (TSSA) whose mandate is to enhance public safety through programs that regulate the transportation, storage, handling, and use of fuels. Source protection plans have identified over 4,700 threats to water intakes in the various regions relating to the handling and storage of fuel. The source water protection plans have proposed policies to deal with these threats, such as directing the TSSA to increase fuel tank inspections in areas close to water intakes, or requiring the TSSA to share information with Conservation Authorities and municipalities about fuel spills. Negotiations are ongoing.
- There has been significant turnover in the Ministry staff responsible for reviewing source protection plans, delaying their approval.
- Conservation Authorities have expressed concern regarding the imminent future of the source protection program because of future funding uncertainty and the risk this poses to the retention of skilled staff. In our survey of Source Protection Committees and Conservation Authorities, 80% of respondents stated that the delay in plan approval and uncertainty in the funding of plan implementation are causing a loss of momentum within the program. Committee members are simply losing interest in the process and are starting to resign, contributing to the loss of technical knowledge.

Weaknesses in Source Water Protection Plans

The water policy expert we retained to assist us on the audit noted that source water protection plans will over time meet the intent of the *Clean Water Act* provided they are approved and implemented as soon as possible and go through at least one further iteration of affirmation and improvement to address unforeseen weaknesses and challenges. In this regard we noted that:

- Although plans identify many threats, they may not include all potential threats such as threats to the Great Lakes. There is a high likelihood that spills from industrial and commercial facilities may also pose a significant threat to intakes in the Great Lakes, but plans do not currently address them.

- Private wells or intakes that serve one residence are currently excluded from source protection planning. An estimated 1.6 million people in Ontario rely on private wells for their drinking water supply. For them, protecting source water is the only line of defence. In 2013, over a third of the water samples from private wells tested positive for bacteria including E. coli. If private wells were held to the same safety standard used for public drinking water systems, water from these wells that tested positive for bacteria would be considered unsafe to drink.
- The plans also do not currently address the risk that abandoned wells may pose to sources of groundwater. Abandoned wells provide open pathways for contaminants to aquifers. Ministry records show that about 60,000 abandoned wells have been properly decommissioned in Ontario. However, a recent study estimated that 730,000 wells have been abandoned in Ontario. This suggests that there may be many abandoned wells that have not been properly decommissioned that may pose a threat to groundwater sources.

Limited Coverage and Enforcement Under the *Nutrient Management Act*

- Only a limited number of farms that produce and use manure are captured under the requirements of the *Nutrient Management Act* and its regulations. The farm that was the source of contamination in Walkerton would currently not be captured under the Act's regulations. The Ministry and the Ministry of Agriculture, Food and Rural Affairs have acknowledged the need to phase in more farms to adhere to the regulations, but to date this has not been done.
- Neither the Ministry nor the Ministry of Agriculture, Food and Rural Affairs have information on the total number of farms that produce manure and need to manage it in accordance with the Act and regulations. They rely on education and outreach to ensure that farms self-report whether they meet the conditions set out in the regulations, but we noted that these efforts were limited.
- In 2013/14, the Ministry inspected only 3% of the farms known to have to adhere to the Act's regulations for the proper storage and application of manure. Even though inspections normally take no longer than a day or two to perform, 17 agricultural inspection officers on staff set a target of inspections that equated to an inspector performing less than one farm inspection every two weeks.
- We also noted that the Ministry often did not follow up on issues of non-compliance, and rarely used punitive measures, such as issuing offence notices that may result in fines set by provincial courts. We noted that over the past two years, about 50% of the farms that had been inspected were found to be non-compliant with the *Nutrient Management Act* and its regulations. Of these, the Ministry found that about half of the non-compliance issues were causing a risk or threat to the environment and/or human health.

The *Nutrient Management Act* was proclaimed in 2002. Yet, since that time, phosphorous and nitrogen contamination continues to grow in the province's agricultural watersheds. Our review of data gathered by the Ministry since 2009 on the quality of water in streams in agricultural watersheds with intensive manure production suggested that phosphorous and nitrogen levels both continue to increase in the majority of the streams for which data is being collected.

Water-taking Charges Insufficient to Recover Program Costs

The Ministry is only recovering about $200,000 of the $9.5 million direct annual program costs attributable to the taking of water by industrial and commercial users. Since 1961, anyone taking more than

50,000 litres of water per day from either surface or groundwater sources in Ontario requires a permit issued by the Ministry. There are currently over 6,000 permit holders taking water in Ontario, of which about 1% or 60 are high-consumptive industrial or commercial users (such as water-bottling companies and other companies that incorporate water into their products). A regulation under the *Ontario Water Resources Act* allows the Ministry to charge high consumptive users a rate of only $3.71 for every million litres of water that they take, resulting in the low recovery cost.

OVERALL MINISTRY RESPONSE

The Ministry appreciates the work of the Auditor General and welcomes the input on how it can further improve the protection of source water in Ontario.

Ontario's multi-barrier approach to protecting drinking water has made our tap water among the best protected in the world. Protecting the sources of drinking water—our lakes, rivers and groundwater—is the foundation of our approach.

We protect our drinking-water sources first through prevention—by developing collaborative, watershed-based plans that are locally driven and based in science. Source-water protection plans are the result of many years of hard work at the local level and public consultation, and we thank all those who have contributed to the program to date.

We look forward to learning from the findings presented in the report to, with all our partners, continue to provide a strong framework to protect drinking water.

Detailed Audit Observations

The water policy expert we retained to assist us on the audit noted that three of Ontario's four Great Lakes are now in a measurable state of ecological decline because of the pressures of population growth, development, and threats including invasive species and climate change.

The Ministry of the Environment and Climate Change (Ministry), together with Conservation Authorities, municipalities and provincial parks, has a number of water quality monitoring programs for Ontario's lakes, rivers, streams and groundwater. Many of these are existing and future sources of drinking water for the population of the province. The scope of water quality monitoring is broadly designed to assess aquatic ecosystem health as well as the quality of drinking water. Samples of water, sediment, and aquatic life are collected and tested in Ministry laboratories for basic water quality indicators such as acidity, calcium and phosphorus, and pollutants such as mercury, lead, PCBs and pesticides. The intent of the water monitoring programs is to study what is currently affecting water quality in specific areas of the province and to track water quality over time. The Ministry primarily presents its findings in its annual Water Quality in Ontario report.

The Ministry's most recent public report, released in 2012 and available on its website, notes that although progress has been made in reducing contaminants in Ontario's waters, more work is needed to address new and ongoing challenges.

Protecting Source Water is Safer and More Cost-effective Than Treatment Alone

In his report of the Walkerton Commission of Inquiry, Justice O'Connor concluded that source water protection is one of the most effective and efficient means of protecting the safety of Ontario's drinking water. As the first line of defence, it can reduce health risks associated with contaminants such as bacteria and chemicals, particularly those that cannot be effectively removed by conventional treatment. As of June 30, 2014, the Ministry of Health and Long-Term Care had nearly 300 advisories outstanding against treated drinking water in all parts of the province. Over 40% of advisories were in southern Ontario where population density is high. About two-thirds of the advisories had been outstanding for over a year. Over half were "boil water" advisories to reduce elevated levels of bacteria, while a number were "do not drink" due to elevated levels of chemicals in the water.

Preventing the contamination of the sources of drinking water is often easier and less costly than later having to treat the water. A study conducted by the U.S. Environmental Protection Agency in the mid-1990s estimated that the cost of dealing with contaminated source water is on average 30 to 40 times more than preventing contamination in the first place. In Ontario, there are more than 200 municipal water treatment plants and an average of $1.5 billion a year has been spent over the last five years on maintaining, upgrading and expanding them. Despite this level of spending, a significant amount of capital is still needed to upgrade these facilities.

Contaminated source water in various parts of Ontario has cost the government millions of dollars in remediation efforts. In some cases, the government continues to incur costs. For example, after a PCB leak from a storage facility in Smithville (located between Hamilton and Niagara Falls), the government assumed ownership of the facility in 1989. It has spent over $65 million in cleanup costs, including funding for a pipeline to provide safe drinking water to the town. Currently, there is no economically viable solution to clean up the PCB still present in the bedrock. Therefore, the Ministry is expected to monitor the site indefinitely at an annual cost of up to $860,000. In another case, the Ministry assumed control of an abandoned mine in Deloro (about 200 kilometres southwest of Ottawa) in 1979 after the mine contaminated nearby surface and groundwater sources with radioactive waste and metals. The government has had to operate an onsite water treatment plant at a cost of over $15 million to date. It expects to have to operate the plant for an additional 15 years at a minimum annual cost of about $1 million.

Conservation Authorities and Source Protection Committees also provided us with some examples of municipalities in the province that have, within the last two decades, incurred significant costs in dealing with contamination in their sources of drinking water. For instance, a township within the province lost six of its water supply wells because of industrial contamination. As a result of the contamination, the township had to spend $20 million on extensive upgrades to its water treatment facility and for the installation of a new emergency well and water pipeline. In another case, a city within the province had to invest $14 million in its drinking water treatment plant to deal with contamination in two of its wells caused by an old landfill.

Protecting source water is critical for other reasons as well:

- Many people in Ontario, especially in rural areas, are not connected to municipal drinking water systems and use wells to draw their drinking water directly from underground aquifers. For these people, protecting source water is the only barrier of protection against contaminated drinking water.
- The water policy expert we retained for this audit noted that source water protection also protects the quantity of water that is available at any given time. This is important to ensure there is enough supply in the future to provide for growing populations and increasing demand, while at the same time ensuring adequate supply for the natural ecosystem to function.

The Source Water Protection Planning Process

The *Clean Water Act's* primary objective is to protect existing and future sources of drinking water in Ontario by having a locally developed planning process that: 1) assesses existing and potential threats to source water; and 2) develops policies to either reduce or eliminate the threats (including, in some instances, the prohibition of certain activities).

Responsible for administering the Act, the Ministry passed a number of regulations to:

- provide more detailed definitions of key terms under the Act;
- specify what is required in source protections plans (for example, in one regulation, the Ministry identified 21 specific threats that source water protection plans must address, as shown in **Figure 3**); and
- prescribe the consultation process when developing the plans.

The Ministry also supplemented the regulations with its own framework consisting of technical rules, as well as other bulletins, memoranda, and guidance materials. This framework was used by Source Protection Committees to develop their local plans by the deadline of August 2012.

Just prior to the proclamation of the *Clean Water Act*, the Ministry also set up a Source Protection Programs Branch (Branch) in the fiscal year 2004/05. The Branch works with program partners, including other ministries, municipalities, Conservation Authorities and Source Protection Committees, in the development and eventual implementation of source protection plans for each of the source protection regions across the province. The Branch consists of 36 employees whose key responsibilities are to:

- develop regulations and policies pertaining to the source water protection program;
- assist program partners in implementing the program (for example, by providing technical guidance and interpreting the *Clean Water Act* and its related regulations);
- review documents prepared and submitted by Source Protection Committees, including

Figure 3: Source Water Protection Plans Must Address 21 Threats

Prepared by the Office of the Auditor General of Ontario

1. The establishment, operation or maintenance of a waste disposal site.
2. The establishment, operation or maintenance of a system that collects, stores, transmits, treats or disposes of sewage.
3. The application of agricultural source material to land (for example, manure).
4. The storage of agricultural source material.
5. The management of agricultural source material.
6. The application of non-agricultural source material to land (for example, sewage and pulp and paper bio-solids).
7. The handling and storage of non-agricultural source material.
8. The application of commercial fertilizer to land.
9. The handling and storage of commercial fertilizer.
10. The application of pesticide to land.
11. The handling and storage of pesticide.
12. The application of road salt.
13. The handling and storage of road salt.
14. The storage of snow.
15. The handling and storage of fuel.
16. The handling and storage of a dense non-aqueous phase liquid (a liquid that is denser than water or does not dissolve in water).
17. The handling and storage of an organic solvent.
18. The management of runoff that contains chemicals used in the de-icing of aircraft.
19. An activity that takes water from an aquifer or a surface water body without returning the water taken to the same aquifer or surface water body.
20. An activity that reduces the recharge of an aquifer.
21. The use of land as livestock grazing or pasturing land, an outdoor confinement area or a farm-animal yard.

assessment reports and source protection plans;
- develop and administer accredited training for Risk Management Officials and inspectors who ultimately will be responsible for implementing some of the policies contained in source protection plans; and
- administer funding to Conservation Authorities and municipalities in the 19 source protection regions to support local delivery of the program.

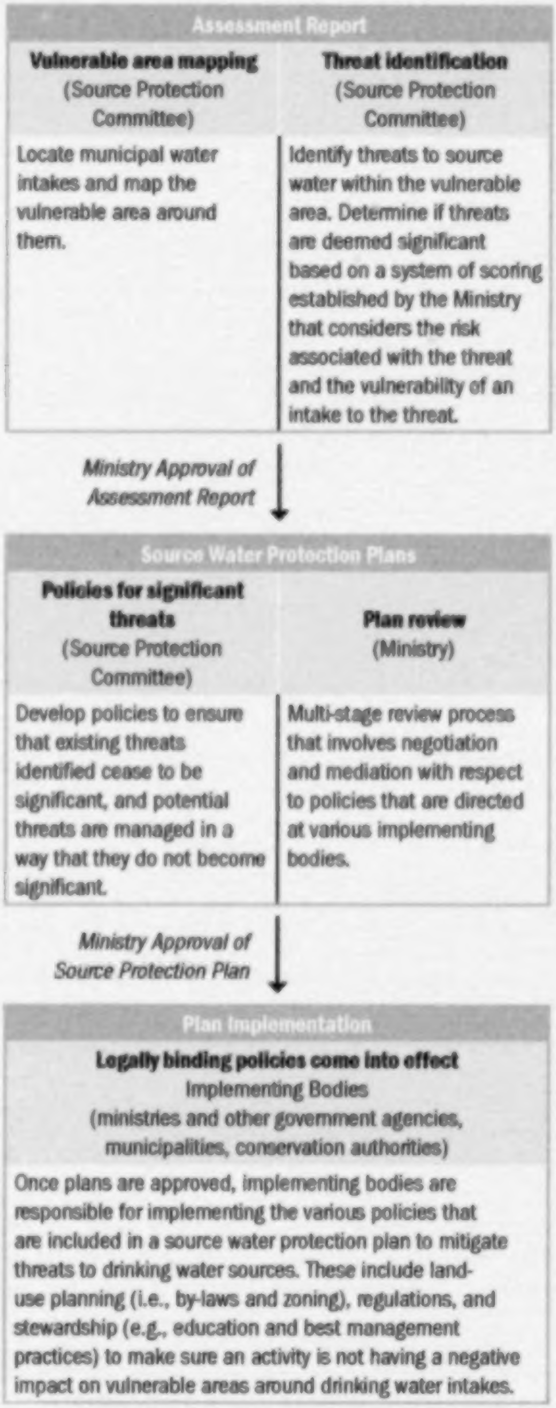
Figure 4 highlights the multi-stage process to be undertaken in accordance with the *Clean Water Act* in developing and ultimately implementing source protection plans.

At the time of our audit, 22 source protection plans had been developed by Source Protection Committees for 19 regions within the province. As seen in **Figure 5**, the 19 regions cover only about 14% of the total land mass in the province, but over 95% of Ontarians live within the boundaries of these source protection regions.

In total, the 22 proposed plans submitted to the Ministry contain over 12,500 recommended policies. These consist of:
- **Education and outreach**–Informing the public about best management practices to prevent activities from negatively affecting drinking water sources.
- **Risk management plans**–Requiring that a landowner create a risk management plan to manage significant threats to drinking water sources identified in a vulnerable area.
- **Prescribed instruments**–Regulatory tools that already exist under specific pieces of current provincial legislation. These allow an authority, such as a provincial ministry, to impose conditions on existing and/or future activities to protect drinking water sources. Examples of prescribed instruments include: nutrient management strategies and plans for farms, and certificates of approval issued by the Ministry for facilities such as waste disposal sites and waste management systems, permits to take water, and pesticide permits.

Figure 4: Multi-step Process for Developing Source Water Protection Plans

Prepared by the Office of the Auditor General of Ontario



Assessment Report

Vulnerable area mapping (Source Protection Committee)	**Threat identification** (Source Protection Committee)
Locate municipal water intakes and map the vulnerable area around them.	Identify threats to source water within the vulnerable area. Determine if threats are deemed significant based on a system of scoring established by the Ministry that considers the risk associated with the threat and the vulnerability of an intake to the threat.

Ministry Approval of Assessment Report

Source Water Protection Plans

Policies for significant threats (Source Protection Committee)	**Plan review** (Ministry)
Develop policies to ensure that existing threats identified cease to be significant, and potential threats are managed in a way that they do not become significant.	Multi-stage review process that involves negotiation and mediation with respect to policies that are directed at various implementing bodies.

Ministry Approval of Source Protection Plan

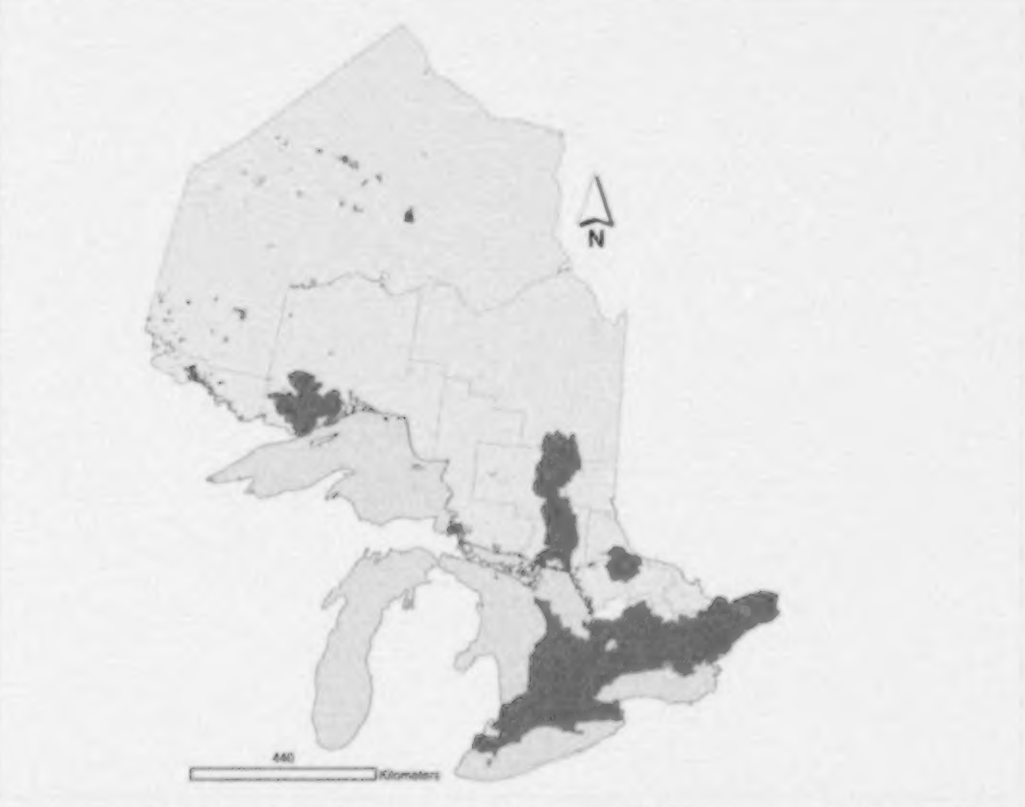
Plan Implementation

Legally binding policies come into effect
Implementing Bodies
(ministries and other government agencies, municipalities, conservation authorities)

Once plans are approved, implementing bodies are responsible for implementing the various policies that are included in a source water protection plan to mitigate threats to drinking water sources. These include land-use planning (i.e., by-laws and zoning), regulations, and stewardship (e.g., education and best management practices) to make sure an activity is not having a negative impact on vulnerable areas around drinking water intakes.

Figure 5: Map of the Area Covered by the Source Protection Regions in Ontario

Source of data: Ministry of the Environment and Climate Change



Note: Only 14% of the total land mass is covered by the source protection regions, but over 95% of Ontarians live within the boundaries of these regions.

- **Land use planning**–Allows the Source Protection Committees to manage or eliminate a future threat activity through policies that must be reflected in land use official plans, zoning by-laws and site plan controls.
- **Prohibition**–Allows the Source Protection Committees to prohibit certain existing or future activities that pose a particularly significant threat to drinking water sources. This tool is meant to be used only as a last resort if the committee is convinced no other method will reduce the risk the activity poses.

Source Protection Committees are required to designate an implementing body for each policy, such as a specific government ministry or agency, municipality, or a Conservation Authority. Once plans are approved by the Ministry, the implementing bodies will ultimately be responsible for implementing the policies contained in the plans. Implementing bodies will also be required to report on the progress of policy implementation to the Ministry.

Since the 2004/05 fiscal year, the Ontario government has invested over $240 million in source protection planning and implementation, less than 20% of which has been devoted to the latter. This does not include the time invested by members of the Source Protection Committees, or by Conservation Authorities, municipalities, and provincial ministry staff. Until 2011, the Ministry of Natural Resources and the Ministry jointly funded the program. In 2011, the Ministry assumed funding responsibility for the program. **Figure 6** provides a breakdown of total funding to date.

Figure 6: Breakdown of Total Funding Provided for Source Protection Planning and Implementation Over a 10-year Period Since 2004/05

Source of data: Ministry of the Environment and Climate Change

Program Initiative	Funding Since 2004/05 ($ 000)	% of Total Funding
Capacity funding–Conservation Authorities: To support source protection planning, Source Protection Committee costs, consultation, and other legislative obligations.	117,900	
Technical studies: To support completion of technical work necessary to develop assessment reports and source protection plans.	57,400	
Water quantity studies: To support the completion of water quantity studies and the inclusion of the results in source protection plans.	28,000	
Planning Total	**203,300**	**84**
Support for local initiatives: To support voluntary actions by landowners to address threats to drinking water sources in advance of the implementation of approved source protection plans.	24,500	
Source Protection Municipal Implementation Fund: One-time funding for smaller municipalities to help with the cost of implementing source protection plans.	13,500	
Implementation Total	**38,000**	**16**
Total	**241,300**	**100**

Delays in Source Water Protection Plan Approval and Implementation

Fourteen years after the crisis in Walkerton and 12 years after the Walkerton Commission of Inquiry first recommended the development of local source water protection plans, the Ministry is still in the process of reviewing and approving plans. At the time of our audit, only three plans had been approved by the Ministry, and these are for regions that have a relatively small number of municipal water intakes that serve about 5% of the province's population (as of September 2014, eight plans were approved). The Ministry does not have a clear time frame when all plans will be approved; however, its best case scenario is by 2016.

Source Protection Committees were responsible for preparing and submitting, by August 2012, their proposed source protection plans for review and approval by the Ministry. Even though all 22 proposed plans were submitted to the Ministry on time, the following sections highlight issues regarding the completeness of the plans submitted, their review and approval process, and the ultimate implementation of the plans once approved.

Significant Turnover in Ministry Staff Responsible for Reviewing Source Water Protection Plans

The review of each source water protection plan is led by one of four ministry review co-ordinators. These co-ordinators play a key role in the review and approval of plans. Their responsibilities include: assessing whether the plans have been prepared in accordance with the *Clean Water Act*; assessing whether the proposed policies within the plans adequately address the threats to source water; co-ordinating the review of technical data within the plans by ministry experts; and facilitating mediations between Source Protection Committees and other ministries and government agencies that would ultimately have to implement the proposed policies. We noted that in early 2014, three of the four co-ordinators left their positions for reasons such as retirement. The Ministry filled these vacancies in the spring of 2014 and hired five

additional temporary co-ordinators to alleviate the backlog; however, given the complexity of the plans, the newer co-ordinators must first overcome a steep learning curve to become fully effective in their roles, which can take several months.

Seven Regions Lacked the Water Budget Studies Needed to Complete their Source Water Protection Plans for Approval

The *Clean Water Act* requires that both source water quality and quantity be protected and, therefore, the plans must address threats to both. Twelve of the 19 regions identified water quantity threats in certain areas of their regions that required a more detailed water budget study to assess the significance of the threat. Water budget studies look at how much water enters a watershed, how much of the water is stored, and how much water leaves. This information helps determine how much water is available for human uses, while ensuring there is still enough left for natural processes (for example, there has to be enough water in a watershed to maintain streams, rivers and lakes to support ecosystems). Despite having submitted source water protection plans for Ministry approval, eight of the 12 regions were still finalizing their detailed water budget studies as of March 31, 2014. According to the Source Protection Committees we spoke to, there are two main factors that contributed to the water budgets not being completed on time. First is the complexity of the work, and second is a lack of qualified consultants to conduct the work. The Ministry informed us that it would only approve the plans once the water budget studies have been submitted. At the time of the drafting of this report, water budget studies in seven regions were still outstanding.

The Ministry has had to Conduct Significant Mediations Between Source Protection Committees and Other Ministries and Government Organizations

There has been a significant amount of time spent on mediation between Source Protection Committees and other ministries and government agencies affected by the policies proposed within the plans. Even though the *Clean Water Act* obligates affected parties to comply with the policies, in some cases the Ministry has been unsuccessful in mediating, and some significant threats to source water had to be excluded from the policies as initially envisioned by the Source Protection Committees. For example, the Technical Standards and Safety Authority (TSSA) is a not-for-profit, self-funded government organization under the legislative authority of the Minister of Consumer Services (MCS). Its mandate is to enhance public safety through programs such as its Fuels Safety Program, where it regulates the transportation, storage, handling, and use of fuels. Source protection plans have identified over 4,700 threats to water intakes in the various regions relating to the handling and storage of fuel. Fuel spills can cause significant contamination of source water; for example, only one gallon of oil can contaminate a million gallons of water. The source protection plans have proposed policies to deal with these threats, such as directing the TSSA to increase fuel tank inspections in areas close to water intakes, or requiring the TSSA to share information with Conservation Authorities and municipalities about fuel spills, or assist with developing and delivering education and outreach programs for the safe handling and storage of fuel. The TSSA initially did not agree to incorporate the proposed policies in its operations as it felt that the policies did not align with its mandate. Instead, it requested that its name be removed as the implementing body of the policies, and that the Committees reassign the policies to some other, more applicable organization, or remove the policies from the plans altogether. This led to significant consultations between the TSSA, Source Protections Committees and the Ministry that were still ongoing at the time of our audit.

Funding Uncertainty for the Implementation of Policies in Source Protection Plans

The report of the Walkerton Commission of Inquiry noted the importance of the Ministry taking a lead role in all aspects of providing safe drinking water, including source protection. Currently, the Ministry lacks a long-term strategy that addresses:

- funding and oversight of municipalities and Conservation Authorities to ensure the source protection plans, once approved, are implemented appropriately; and
- timely updates of source protection plans to ensure that the local threats to source water identified in the plans, and the policies to address the threats, remain current.

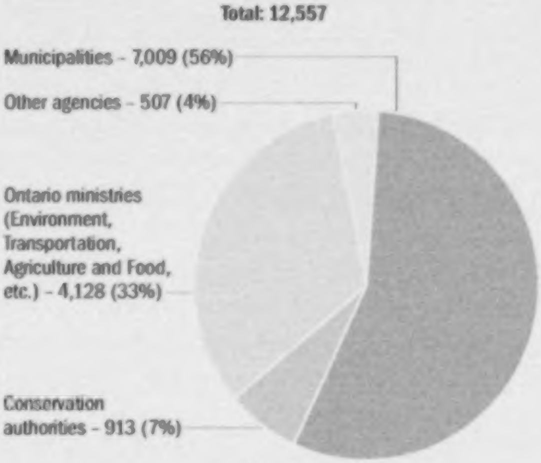
The 22 source protection plans that have been developed by Source Protection Committees for the 19 regions within the province contain over 12,500 proposed policies designed to reduce or eliminate threats against sources of drinking water. As seen in **Figure 7**, municipalities and Conservation Authorities are responsible for implementing about two-thirds of the total proposed policies. They will also be responsible for updating plans to ensure that they remain current.

However, once the plans are approved by the Ministry, there is still a great deal of uncertainty about who will fund their implementation. Specifically, municipalities and Conservation Authorities are looking to the province for additional funding. Smaller municipalities are affected the most with respect to funding. Unlike some of the larger municipalities that have a greater property tax base, these municipalities would have difficulty funding plan implementation from their existing tax base. In total, the proposed plans contain approximately 50 policies that require funding from the Ministry or the Ministry of Agriculture, Food and Rural Affairs in support of plan implementation. For example, some policies are directed at funding incentive programs for landowners who would incur losses or costs in implementing source protection policies.

A February 2014 letter written by Conservation Ontario (the office that supports the network of Conservation Authorities in the province) to the Deputy Minister of the Ministry of the Environment and Climate Change on behalf of Ontario's 36 Conservation Authorities expressed concern regarding the imminent future of the source protection program because of future funding uncertainty. Specifically, the letter stated that the successful implementation of the *Clean Water Act* is highly dependent on the knowledge, expertise and skill sets of the professionals who have a long history with the program. However, given the uncertainty around future funding for the program, the retention of these individuals is at risk. In fact, many key individuals are either leaving the program in search of other employment, or are being terminated because of funding restraints. We noted an example of this in one of the smaller regions whose source water protection plan had been approved by the Ministry. A Conservation Authority there lost, due

Figure 7: Breakdown of Total Number of Policies by the Authorities Responsible for Implementing Them

Prepared by the Office of the Auditor General of Ontario



to the funding uncertainty, most of the key staff that were responsible for developing the region's plan.

In our survey of Source Protection Committees and Conservation Authorities, 80% of respondents stated that the delay in plan approval and uncertainty in the funding of plan implementation is causing a loss of momentum that threatens the program. Committee members are simply losing interest in the process and are starting to resign, contributing to the loss of technical knowledge. Municipalities are reassigning staff, including some who had previously received training to become Risk Management Officers in anticipation of plan approval (discussed further below). The delay in approving and implementing the plans is having the following consequences:

- Work cannot be done to protect drinking water sources in accordance with the proposed policies contained in the plans. For example, the policies could prohibit the construction of a gas station near a drinking water source. Without these approved policies, in the meantime, the gas station could be built and the Ministry would then have to manage the risk the gas station poses to the water source.
- Conservation Authorities informed us that some of the plans may become outdated and would require an update before they are implemented. This will result in additional costs being incurred.
- Extensive training of municipal staff is at risk of becoming obsolete, requiring retraining at additional costs. Beginning in 2011, the Ministry started to provide mandatory training to municipal Risk Management Officers who will ultimately be responsible for implementing the enforceable policies within source protection plans. The qualifications obtained through this training expire after five years. If the majority of the plans do not begin to be implemented in 2016, many of these Risk Management Officers will have to be retrained at an additional cost.

RECOMMENDATION 1

To ensure that source water protection plans are reviewed, approved and implemented in a timely manner, the Ministry of the Environment and Climate Change should:

- **internally set a firm commitment of when plans should be approved and then review its current staffing of the key personnel responsible for reviewing and approving plans to ensure it is sufficient to meet the commitment;**
- **work with Source Protection Committees to ensure that outstanding water budget studies are completed and submitted as soon as possible; and**
- **in consultation with municipalities and Conservation Authorities, devise an approach to fund the implementation of many of the policies within the plans once the plans are approved.**

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that source water protection plans should be reviewed, approved and implemented in a timely manner. The Ministry has created dedicated internal teams that focus on plan approval and implementation. As well, the Ministry works with subject matter experts across government, and program partners such as municipalities, conservation authorities and source protection committees to expedite plan approvals. The Ministry is on track to have half of the 22 source protection plans approved by the end of 2014 and its target is to have all plans approved by the end of 2015.

The Ministry continues to work with source protection committees to ensure that remaining technical studies (i.e., detailed water budgets) are completed in a timely way, recognizing that the external third-party technical expertise to perform this work is in limited supply and is a constraining factor.

The Government of Ontario has funded the source protection planning process to date in the order of $240 million to, for example, invest in technical and scientific studies, develop local plans and encourage early voluntary actions by landowners. The Ministry has listened and responded to small, rural municipalities who needed assistance with preparing for implementation by providing funding through the $13.5 million Source Protection Municipal Implementation Fund. Moving forward, implementation of local source protection plans is a shared responsibility involving all program partners.

RECOMMENDATION 2

In the longer term, the Ministry of the Environment and Climate Change, in conjunction with Source Protection Committees, should develop a strategy that addresses timely updates of the plans to ensure that local threats to source water, and policies that eliminate or mitigate the threats, remain current.

MINISTRY RESPONSE

The Ministry agrees that there should be timely updates of the source protection plans to ensure that threats to source water, and policies that address these threats, remain current. Moving forward, all source protection plans will have a mechanism for updates.

Limitations in Source Water Protection Plans

Based on a review of a sample of plans, the water policy expert we retained noted that source water protection plans will over time meet the intent of the *Clean Water Act* provided they are approved and implemented as soon as possible and go through at least one further iteration of affirmation and improvement that will address unforeseen weaknesses and challenges. In this regard, we note the following with respect to the 22 plans that have been submitted to the Ministry for approval:

Ministry Framework Does Not Identify All Significant Threats to Source Water

The Ministry's framework, which is used by Source Protection Committees when developing their plans, contains technical rules to assess the significance of the 21 threats (See **Figure 3**) to drinking water intakes. The Committees can develop stronger policies to address those threats classified as significant. To determine the significance of a threat, the rules assign a score to the risk associated with the threat and the vulnerability of an intake to the threat.

According to the Ministry, the science behind the protection of groundwater is fairly well established, whereas the protection of surface water is an emerging science. For that reason, the technical rules it used to classify threats to surface water that supply drinking water intakes are limiting and require an update to reflect new scientific data.

Source Protection Committees and Conservation Authorities indicated to us that the scoring system did not allow them to appropriately classify a number of threats they felt were significant. This is because the data and assumptions used in the scoring system to determine, in particular, the risk associated with a threat, are outdated. For example, some threats that could not be assessed as significant included the transport of petroleum products in a pipeline, the transport of hazardous substances across or in the vicinity of surface water, and the application of road salt and the storage of snow. Source Protection Committees and Conservation Authorities also noted that, in light of the extended time it has taken to develop and approve source protection plans, new information has resulted in the need to update the scoring system.

RECOMMENDATION 3

To strengthen source water protection and better ensure all significant threats are identified and addressed, the Ministry of the Environment and Climate Change should ensure that the data and assumptions used in its framework for assessing the significance of threats to drinking water intakes in the various regions of the province are current and properly enable significant threats to be classified as such.

MINISTRY RESPONSE

The Ministry is committed to ensuring that its overall framework for assessing significant threats to drinking water remains current. Emerging and new threats will be systematically captured and considered during the course of plan update and review.

In addition, as part of plan approval, municipalities and source protection committees will have a duty to report annually on source protection implementation and to identify emerging and new issues. As well, clear linkages have been established between the municipal land use planning framework and source protection planning, which allow municipalities to be far more pro-active in identifying and addressing potential threats to sources of drinking water.

Source Protection Plans Do Not Address All Potential Threats to Drinking Water Intakes in the Great Lakes

The majority of Ontario's population obtains its drinking water from the Great Lakes. In its technical rules for classifying threats as significant to the Great Lakes, the Ministry assumed that many drinking water intakes in the Great Lakes are far from shore and in deep waters, and therefore not susceptible to unsafe concentrations of contamination. However, we requested information about the depth and distance from shore of all Great Lake municipal water intakes and found that the Ministry did not have this data. Conservation Authorities that we visited informed us that, of the 154 intakes in the Great Lakes, there is only one intake, which supplies a portion of the Greater Toronto Area, that is significantly deep and offshore (90 metres deep and 2 km offshore). The remaining intakes are much closer to shore and closer to the surface (some very close to shore and only 3 metres deep).

After extensive discussions, the Ministry allowed Source Protection Committees and Conservation Authorities to use an alternative method, called "events-based modeling", for assessing significant threats to drinking water intakes in the Great Lakes. This method simulates whether events such as a spill of contaminants will reach water intakes at concentration levels high enough to pose a threat to human health. In the eight regions where Great Lake intakes exist, "events-based modeling" was used to determine if spills—from sources such as a pipeline transporting petroleum products or large industrial and municipal facilities on the shores of the Great Lakes—could be classified as a significant threat.

The results of the modeling exercises revealed that contaminants do in fact have the potential to reach drinking water intakes in the Great Lakes at elevated levels. The Source Protection Committees then developed policies in their source protection plans to address these. However, without further funding, the Committees could model only a limited number of scenarios. Therefore, source protection committees and municipalities informed us that there is a risk that spills from other existing industrial and commercial facilities may also pose a significant threat to intakes in the Great Lakes, but the plans do not address these. Conservation Authorities and Source Protection Committees confirmed to us that they haven't had the resources or opportunity to do a complete inventory of conditions and near-shore activities that pose a threat to drinking water intakes in the Great Lakes.

RECOMMENDATION 4

To ensure that source water protection plans address all potential threats to drinking water intakes in the Great Lakes, the Ministry of the Environment and Climate Change should work with the relevant Conservation Authorities and Source Protection Committees to complete an inventory of all conditions and near-shore activities that pose a threat to the intakes, assess the conditions, and incorporate into the protection plans ways of dealing with these threats.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that protecting the Great Lakes from potential drinking water threats is of critical importance. Ontario has a strong regulatory framework to help protect water quality and quantity. Legislation and water protection programs are founded on science and are often ecosystem- or watershed-based.

The Ministry is continuing its work with the federal government, and internationally through the Canada–U.S. Great Lakes Water Quality Agreement, to set goals relating to nutrient loading, cleaning up contaminated sites, spills prevention planning and improving overall Great Lakes health.

The Ministry is working with conservation authorities and municipalities to augment the existing inventory of threat activities on the Great Lakes. This includes assessing wastewater treatment plants, pipelines and fuel storage facilities. We will continue to work with conservation authorities and municipalities as part of future plan updates to ensure that all near-shore activities that pose a threat are captured. Monitoring and investigations will continue and focus as necessary on lake-wide threats and conditions that provide the backdrop for localized threats.

Private Wells Excluded from Source Protection Planning

An estimated 1.6 million people in Ontario rely on private wells for their drinking water supply. In the aftermath of the Walkerton tragedy, the second report of the Walkerton Commission of Inquiry noted:

> "Protecting drinking water sources can in some instances be less expensive than treating contaminated water. Moreover, protecting sources is the only type of protection available to some consumers—at present, many rural residents drink untreated groundwater from wells. The protection of those groundwater sources is the only barrier in their drinking water systems."

In November 2008, the Ministry passed a regulation under the *Clean Water Act* that excludes private wells or intakes from source protection planning. This regulation was developed through consultation with the parties involved in source protection planning. The parties agreed that in order to expedite the process, wells or intakes that serve one private residence would be excluded from the initial phase of source protection planning, but their inclusion would be considered in subsequent phases. Under the Act, municipalities, through a council resolution, could request that a cluster of six or more private wells or intakes, or a well(s) serving a designated facility such as a school or a day care, be included in source protection planning. However, we noted that municipalities for the most part have not elected to include these in source water protection planning.

The responsibility of private well maintenance and testing falls on the owner. Public Health Ontario offers free testing for bacterial contamination; however, it costs $150 on average to test a well for chemical contamination, and these tests are conducted by private labs. Since there are no accurate records on the total number of private wells in the province, it is impossible to tell what percentage of private well owners actually gets their water tested.

We requested results of bacterial contamination tests from Public Health Ontario and found that overall private well water submissions had decreased by 40% since 2003. In 2013, private well owners submitted approximately 166,000 water samples to Public Health Ontario, of which 36% tested positive for bacteria including E. coli. If private wells were held to the same safety standards used for public drinking water systems (that is, for every 100 mL of drinking water tested, no bacteria including E.coli bacteria should be detected), water from these wells that tested positive for bacteria would be considered unsafe to drink.

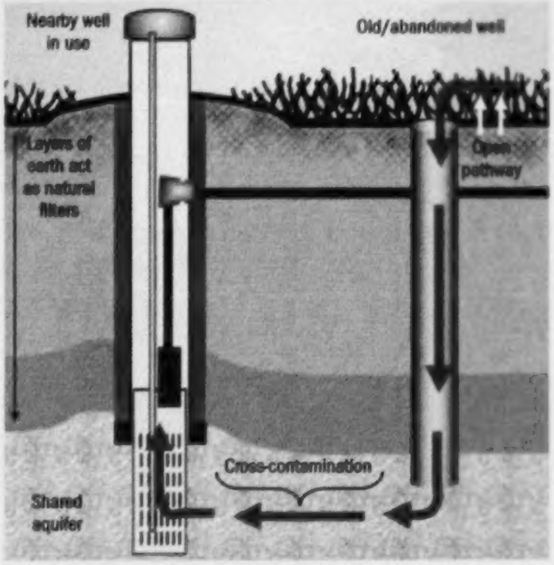
The government does not have records on the number of private wells tested for chemical contamination since private labs conduct these tests. The Ministry, however, through approximately 380 monitoring wells located mainly in southern Ontario, monitors whether a suite of chemicals in groundwater has exceeded standards considered safe for public drinking water systems. Currently, there are no mechanisms in place to notify private well owners when chemical levels in groundwater are known to exceed acceptable levels. In 2013, 31 unique well locations revealed that chemical levels, mainly fluoride and nitrate, had exceeded acceptable drinking water standards by nearly 30% on average. Fluoride and nitrate can get into groundwater either naturally or from runoff of fertilizers used in agricultural areas, from septic and sewage treatment system discharges, and from industrial sources. In effect, any water drawn by private wells from these groundwater sources would have been contaminated until such time as the chemicals went down to acceptable levels.

The Risk that Abandoned Wells Pose to Sources of Groundwater Not Addressed in Source Water Protection Planning

Abandoned wells that have not been properly decommissioned pose a risk to groundwater. As seen in **Figure 8**, they provide open pathways to aquifers that bypass the natural filtration processes afforded by the different layers of the earth. The risk of abandoned wells can only be mitigated through proper well decommissioning. In Ontario, dry wells and wells that are not being used must be plugged and sealed according to the regulations under the *Ontario Water Resources Act*. To minimize the risk that the well will contaminate groundwater sources, the regulations set out detailed requirements on how to choose a filling material to plug the well, how deep it must be filled, and how to properly seal the well at ground level.

Figure 8: Example of Cross-contamination caused by an Improperly Decommissioned Abandoned Well

Source of data: Adapted from Agriculture and Agri-Food Canada



Ministry records show that about 60,000 abandoned wells have been decommissioned properly in Ontario. The Ministry acknowledged that its information may not be complete because many wells were abandoned prior to the 1920s, when the Ministry first began tracking abandoned wells. Also, private landowners are reluctant to report abandoned wells on their properties because it could cost as much as $10,000 to properly decommission the well. However, a recent Canada-wide report published by the University of Alberta estimated that 730,000 wells have been abandoned in Ontario. Therefore, evidence suggests that there may be many abandoned wells in the province that have not been properly decommissioned and that these pose a threat to groundwater sources. However, they are not listed as one of the 21 specific threats required to be addressed in source water protection planning.

RECOMMENDATION 5

To strengthen source water protection, the Ministry of the Environment and Climate Change should consider the feasibility of requiring source protection plans to identify and address threats to sources of water that supply private wells and intakes and threats that abandoned wells may pose to sources of groundwater. As well, in conjunction with the Ministry of Health and Long-Term Care and public health units, the Ministry should put mechanisms in place to notify private well owners when bacterial and chemical levels are known to exceed acceptable levels in their area.

MINISTRY RESPONSE

The Ministry appreciates the Auditor General's recommendation. The Ministry's regulatory and compliance focus is on larger drinking water systems, such as the municipal drinking water systems that serve over 8 million Ontarians. A multi-pronged regulatory framework addresses the licensing, construction and decommissioning of private wells in Ontario. It is important to note that private well owners have responsibility for the proper constructing and maintenance of their wells. The Ministry will work with conservation authorities to examine the issue of abandoned wells in significant risk areas that may pose an issue to groundwater.

The Ministry, along with the Ministry of Health and Long-Term Care, local health units and conservation authorities, provides support and assistance to private well owners on several fronts. If chemical levels in groundwater exceed health-based criteria, results are shared within two days to ensure proper notification and awareness. The Ministry publicly posts all information from the groundwater monitoring program. Free water sample collection kits are also available to private well owners along with instructions on how to take a sample and obtain water test results, and what to do if the well tests positive for contamination. Public health inspectors are available to help interpret the test results and provide advice to private well owners to assist them in addressing such issues. The Ministry, in conjunction with the Ministry of Health and Long-Term Care, will review and, where necessary, improve its current practices of ensuring that private well owners are duly notified when bacterial and chemical levels are known to exceed acceptable levels in their area.

Some Eligible Municipalities Left Out of One-time Funding for Source Protection Plan Implementation

In 2013, the Ministry received one-time funding approval to distribute $13.5 million over three years to qualifying municipalities to assist them with the implementation of source protection plans. Under the Source Protection Municipal Implementation Fund (SPMIF), the Ministry determined that 189 small and rural municipalities qualified for, and would receive, this funding. Municipalities received funding ranging from about $18,000 to as high as $100,000. An additional $2.8 million of the SPMIF has been set aside as an incentive for municipalities to collaborate with one another in the implementation of the policies in the plans.

The Ministry allocated SPMIF funding based on a formula that considered the number of threats specified in source protection plans and the types of policies that the municipalities are required to implement. When the Ministry allocated the funds, it was aware that some municipalities were still in the process of verifying threat counts; however, the Ministry committed all funds before verification was complete. Consequently, in some source protection regions, additional municipalities were identified as eligible to receive funding under the formula, but didn't receive funding because all funds had been allocated.

RECOMMENDATION 6

To better ensure that any future funding to municipalities for the implementation of source protection plans is allocated fairly to achieve intended objectives, the Ministry of the Environment and Climate Change should ensure all eligible municipalities are identified before distributing funds.

MINISTRY RESPONSE

The Ministry recognizes that, to achieve the best outcomes, funding to prepare municipalities for source protection implementation needs to be fairly allocated. The $13.5-million three-year Source Protection Municipal Implementation Fund created in 2013 targeted small, rural municipalities for funding assistance. Some 189 small, rural municipalities were identified as eligible. The Ministry worked collaboratively with the Ministry of Finance to define "small, rural" in such a way that would maintain consistency with other Ontario government programs. This funding approach was strongly endorsed by the Association of Municipalities of Ontario.

The Ministry will strive to ensure that, for any future funding, all eligible municipalities are identified before funds are distributed.

The *Nutrient Management Act*

The primary source of the deadly bacteria that contaminated Walkerton's drinking water system was manure that had been spread on a cattle farm near one of the wells that was the source of the town's drinking water. Operations at the water treatment plant did not remove this contamination. For the most part, a regulation under the *Nutrient Management Act* requires larger farms that have livestock and produce more than 300 nutrient units of manure to use certified individuals to develop:

- Nutrient management strategies for storing and handling manure. For example, these strategies must address the amount of manure that the farm generates; the size, location and other specific requirements related to the storage facilities; and whether the land base is sufficient to accommodate the material.
- Nutrient management plans for applying manure. For example, these plans must document any nearby environmentally sensitive sites and features, and maintain minimum buffer zones from wells and surface water, and outline the application rates, timing and methods for the different crops that may be grown on the farm.

As part of a strategy to phase in the remaining farms, the regulation also requires that landowners develop strategies for the proper storage and handling of manure if the farm expands or builds new storage and/or animal housing facilities. Under the regulation, farms that don't have livestock and therefore would not be producing manure, but may still be applying it on crops, do not have to develop plans for its application.

Many Farms in the Province Do Not Have to Adhere to the *Nutrient Management Act* and its Regulations

Under the requirements of the *Nutrient Management Act* and its regulations, only a limited number of farms that produce and use manure are captured. For the most part, manure that is generated at a farm is either used on that farm on its crops or is provided to other farms for use on their crops. Based on information reported in the most recent Statistics Canada census in 2011, we calculated that approximately 1.8 million nutrient units of manure was produced in Ontario in 2011. However, the regulation under the Act would require that plans be in place for the proper application of only about 800,000, or less than half, of the nutrient units produced. The farm that was the source of contamination in Walkerton's drinking water would currently not be captured under the Act's regulations since it generated only about 60 nutrient units of manure, well below the threshold of 300 nutrient units stipulated in the regulation. Neither the Ministry of Agriculture, Food and Rural Affairs nor the Ministry has a definite time frame to phase in all farms that generate and/or apply manure in the province. In this regard, Alberta and Quebec, comparable provinces in Canada that have intensive livestock farming, require all farms to adhere to legislation and regulations relating to the proper storage, handling, and application of manure.

Neither the Ministry of Agriculture, Food and Rural Affairs nor the Ministry has information on the number of farms that produce more than 300 nutrient units of manure and, therefore, need to manage it in accordance with the *Nutrient Management Act* and its regulations. Instead, they rely on education and outreach to ensure that farms self-report whether they meet the conditions set out in the Act and its regulations. However, apart from the initial education and outreach that was targeted at selected farms when the regulations under the Act first came into effect in 2003, the Ministry of Agriculture, Food and Rural Affairs's efforts to inform farmers about their obligations under the Act have been limited. Sometimes through public complaints, incidences of non-compliance by farms become known.

Concerns also exist with respect to crop farms that apply commercial fertilizers containing nitrogen and phosphorus. According to the 2011 Statistics Canada census, commercial fertilizer was applied to approximately two-thirds, or 2.4 million hectares, of all crop land in Ontario. However, regulations under the *Nutrient Management Act* only require large livestock farms, which make up only about 250,000 hectares of land according to the Ministry of Agriculture, Food and Rural Affairs, to develop detailed management plans for applying nutrients (including commercial fertilizer). The remaining 2.1 million hectares of land on which commercial fertilizers were applied was not subject to such planning. The plans for large livestock farms, for example, determine the amount of nutrients that can be applied to lands adjacent to surface water, and also prescribe minimum buffer zones to safeguard surface water and municipal wells. For all other farms, if the environment becomes contaminated through improper nutrient management, the Ministry can lay charges against a farmer through other Acts, but only after the fact and only if the contamination is reported to the Ministry and can be traced back to the source or farm.

The regulation under the *Nutrient Management Act*, which includes specific requirements and strategies for the storage, handling and application of manure, came into effect in 2003. Yet, since that time, phosphorus and nitrogen contamination continues to grow in the province's agricultural watersheds. Between 2004 and 2009, the Ministry gathered data on the quality of water in streams in agricultural watersheds with intensive manure production. In nine of 15 streams, the median phosphorus concentration exceeded the Provincial Water Quality Objectives for sustaining a healthy ecosystem. The nitrate concentrations in nearly all of the streams exceeded guidelines suggested by the Canadian Council of Ministers of the Environment (comprising the environment ministers from the federal, provincial and territorial governments). Since 2009, the Ministry has continued to gather data on streams, but at the time of our audit had not analyzed the data. Our review of the data suggested that both phosphorus and nitrogen levels continue to increase in the majority of the streams for which data is being collected.

The Ministry and the Ministry of Agriculture, Food and Rural Affairs have acknowledged the need to phase in all farms to adhere to the Act's regulations, but to date have been unsuccessful. In 2003, the Provincial Nutrient Management

Advisory Committee (Committee) was created to provide recommendations to the Minister of Agriculture, Food and Rural Affairs and the Minister of the Environment related to certain aspects of nutrient management in Ontario. The members of the Committee were drawn from a broad range of stakeholder groups, including farm organizations, the livestock industry, rural municipalities and the environmental community. Among other things, the Committee was tasked with recommending an effective way to phase in all farms to meet the requirements of the *Nutrient Management Act* and its related regulations. In 2006, this mandate of the Committee was transferred to another committee, but the second committee also did not report on a phase-in strategy since this was subsequently scoped out of its mandate.

RECOMMENDATION 7

To better ensure that the objectives of the *Nutrient Management Act* are being met, the Ministry of the Environment and Climate Change, together with the Ministry of Agriculture, Food and Rural Affairs, should develop an approach to gather information on the total number of farms in the province that need to manage nutrients in accordance with the *Nutrient Management Act* and its regulations.

MINISTRY RESPONSE

The Ministry agrees with the recommendation and is committed to ensuring that the *Nutrient Management Act* (Act) is applied uniformly to all relevant farming operations. With the implementation of source protection plans, the ministries of environment and agriculture will review the current approvals inventory against threat assessments and existing farming operations, and develop a strategy to ensure that the farming operations captured by the Act are being managed accordingly.

When the Act came into force, the Ministry of Agriculture, Food and Rural Affairs assessed the numbers of existing farms using information from a variety of sources to ensure that the Act's objectives were being met. Since that time, new and expanding farming operations have been captured as municipal building officials have required proof of an approved Nutrient Management Strategy as a condition in obtaining a building permit. Moving forward, the Ministry of Agriculture, Food and Rural Affairs will consider other approaches to gathering information on farms that need to manage nutrients in accordance with the Act.

RECOMMENDATION 8

The Ministry of the Environment and Climate Change, in conjunction with the Ministry of Agriculture, Food and Rural Affairs, should phase in the remaining farms in Ontario that generate or apply nutrients so that they also must adhere to the requirements of the *Nutrient Management Act* and its regulations.

MINISTRY RESPONSE

The Ministry and the Ministry of Agriculture, Food and Rural Affairs appreciate the Auditor General's recommendation regarding the phase-in of additional farm operations. Both ministries currently manage nutrient generation and application under complementary legislative frameworks to manage risks to drinking water: the *Nutrient Management Act* and the *Clean Water Act*. The *Nutrient Management Act* was brought into effect to manage the risks from nutrient application on large and expanding farm operations. If they are undertaken in significant risk areas, farming activities, regardless of size, would be captured under the *Clean Water Act*. This includes the risks posed by fertilizers, manure application, fuels and pesticides.

As Source Protection Plans are implemented, the ministries will work together to assess the management of risks from nutrient applications to determine if the phase-in of additional farms would enhance the protection offered under the *Clean Water Act*.

Ministry's Enforcement of the *Nutrient Management Act* is Limited

The Ministry's enforcement of the *Nutrient Management Act* consists of inspecting farms that have reported to the Ministry that they meet the criteria of the Act. The Ministry then inspects for compliance with the Act and regulations in three specific areas:

- application and/or storage of agricultural source material (i.e. manure);
- application of non-agricultural source material (i.e. sewage and pulp and paper biosolids); and
- proper identification of environmentally sensitive features in the plans for the application of non-agricultural source material.

In 2013/14, the Ministry employed 17 agricultural inspection officers across the province to carry out the above inspections. However, as seen in **Figure 9**, the number of inspections of farms that are known to have to adhere to the Act and its regulations is limited. We noted that the Ministry could target and complete more inspections. Specifically, with 17 agricultural inspection officers on staff, the set target of 336 inspections equates to an inspector performing less than one farm inspection every two weeks. We noted that over half of the inspections take no longer than a day to perform, with the remainder of the inspections taking a couple of days to conduct. Despite this, in 2013/14, the Ministry did not meet its planned inspection target because it performed only 269 of the 336 planned inspections.

Due to the limited number being conducted, inspections may not be serving as an effective deterrent. The Ministry may not be establishing a strong enough presence in the farm community. We noted that over the past two years, approximately 50% of the farms that had been inspected had been found to be non-compliant with the *Nutrient Management Act* and its regulations. Of these, the Ministry found that about half of the non-compliant issues were causing a risk or threat to the environment and/or human health from the overloading of nitrogen and phosphorous in the soil. Also, even though the *Nutrient Management Act* allows punitive measures such as issuing offence notices that may result in fines set by provincial courts, we noted that these measures are rarely used. In the past 11 years, the Ministry had issued only seven such notices.

In 2003, when the *Nutrient Management Act* was implemented, the Ministry released a regulation that detailed its requirements for new manure storage and livestock housing facilities, specifically relating to:

- siting (for example, minimum required distances from wells, municipal drains, and bedrock and aquifers that hold groundwater); and
- construction (for example, requirements for the quality of the concrete used, for a structurally solid floor, and for a system to handle run-off from the facility).

The regulation also requires a professional engineer or geoscientist to carry out a site characterization study (to identify soil types and the presence of any aquifer or bedrock) to further safeguard the environment, including source water. Facilities built prior to 2003 were not required to adhere to any of these standards. Neither the

Figure 9: Inspections of Farms in 2013/14 Known to Have to Adhere to the *Nutrient Management Act*

Source of data: Ministry of the Environment and Climate Change, and the Ministry of Agriculture, Food and Rural Affairs

Inspection Type	# of Farm Units*	# of Inspections	% of Farms Inspected
Application and/or Storage of Agricultural Source Material (i.e., manure).	4,709	138	3
Application of Non-agricultural Source Material (i.e., sewage, pulp and paper bio-solids).	1,456	104	7
Inspections to ensure environmentally sensitive features have been properly identified in Non-agricultural Source Material plans.	1,456	27	2

* As of February 2014.

Ministry of Agriculture, Food and Rural Affairs nor the Ministry know the total number of manure storage and livestock housing facilities in Ontario. Therefore, they cannot determine whether facilities built after 2003 were actually built in accordance with the regulation and what risk facilities built prior to 2003 pose to the environment and sources of drinking water. In 2001, Statistics Canada last surveyed 70% of the farms in Ontario and identified that there were 22,740 manure storage facilities. The survey determined that a good number of these were within a 30-metre radius of a well. No subsequent counts of manure storage facilities have been conducted and a count of livestock housing facilities in the province has never been conducted.

We also noted a number of other concerns with respect to the Ministry's enforcement of the *Nutrient Management Act* and its regulations. Specifically:

- Inspections are currently not determined by any formal risk-based criteria. Instead, inspection officers have the discretion to select which farms to inspect, in collaboration with their manager. A formal risk assessment would increase the probability that resources are used to inspect farms that are most likely to be non-compliant with the Act and its regulations or where non-compliance poses higher risks to the environment due to a farm's characteristics.
- We reviewed a sample of completed inspections that were identified by the Ministry as being non-compliant with the Act and its regulations and noted the following:
    - In nearly two-thirds of our sample, the inspection officer did not request the farm to report back to the Ministry on whether the non-compliant issues had been resolved. We noted that many of the farms were repeat offenders. In a number of cases, the inspection officer gave only a verbal warning to the farmer. Over two-thirds of the non-compliant issues posed a risk to the environment. For example, they included insufficient buffer areas around ditches where nutrients could accumulate over time and seep into groundwater sources, and a lack of appropriate run-off management systems to prevent nutrients from harming the environment, including source water.
    - In almost 60% of the inspections we sampled, farms had not accurately reported key operational and site features, such as manure storage or animal housing facilities, in their approved strategies and/or plans that had been previously submitted to the Ministry of Agriculture, Food and Rural Affairs. In all cases, the inspectors from the Ministry, who actually conducted the inspections, encouraged the farmer to update their strategy and/or plan, but failed to notify the Ministry of Agriculture, Food and Rural Affairs so that the Ministry of Agriculture, Food and Rural Affairs could follow up with the farm.
    - In 15% of our sample, we noted that the severity of non-compliance was documented inappropriately. Specifically, the non-compliance was formally documented as being administrative only; however, according to the inspectors' notes, the non-compliant issue posed a risk to the environment.

RECOMMENDATION 9

To better ensure that the *Nutrient Management Act* and its regulations are being enforced, the Ministry of the Environment and Climate Change should:

- set appropriate inspection targets that fully utilize inspection staff and maximize the number of inspections being performed;
- use appropriate risk-based criteria to select farms for inspection; and
- follow up on any noted cases of non-compliance and encourage compliance by using, where necessary, all available punitive measures, such as offence notices.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that it would be beneficial to review the criteria used to select farms for inspections with a view to further refining risk-based selection. The Ministry will undertake a review of our selection criteria and apply it more uniformly across regions and districts.

Ministry inspection targets are based on a number of factors, including aspects of the site (location, equipment, complexity of operations, proximity to sensitive areas, etc.) and compliance history. Staff are assigned to the highest-risk activities to meet ministry compliance objectives, including selecting farms for proactive inspection. Inspections include file review, review of additional information after the site inspection, and the preparation of an inspection report. In addition to proactive inspections, our inspectors also respond to about 450 complaints from agricultural operations every year, including odours and spills associated with the storage of materials and/or their application on land, pesticide usage, well construction, deadstock management and other related on-farm environmental issues. The Ministry will continue work to refine its approach to setting inspection targets in order to maximize the number of inspections being performed.

The Ministry's staff work collaboratively with farmers and the Ministry of Agriculture, Food and Rural Affairs to assist farmers in addressing non-compliance issues and implementing preventative measures, such as addressing renewals of nutrient management strategies and plans. The Ministry will consider the use of offence notices as a tool to promote compliance under the *Nutrient Management Act* and will explore the development of *Provincial Offences Act* tickets.

Water Taking

Since 1961, anyone taking more than 50,000 litres of water per day from either surface or groundwater sources in Ontario requires a Permit to Take Water (permit) issued by the Ministry. The purpose of the permit system is to promote fair sharing of water supplies, help ensure the sustainable use of water resources, protect the natural functions of the ecosystem, and to help the Ministry better plan for and manage the usage of water resources.

As of March 2014, there were over 6,000 active permits in the province, located mostly in southern Ontario. Permit holders are required to maintain daily water-taking records and report this information to the Ministry for each calendar year. Individual permit information can be found on the Ministry's website and includes, for example, the purpose of the permit, the maximum amount of water allowed to be taken, and the expiration date of permits.

When assessing a permit application, ministry staff relies on information from 470 well sites across the province that provide hourly groundwater level data. The water budget studies that were submitted by Conservation Authorities for the purposes of the source water protection plans may also be available to staff.

The Ministry's Water-taking Charges Are Insufficient to Recover Program Costs

The province's annual cost of administering its water quantity management programs, which include the Ministry's Permit to Take Water program and its Provincial Groundwater Monitoring Network, is $16.2 million. Of this amount, $9.5 million are direct program costs attributable to industrial and commercial users which may be recovered through water-taking charges. However, the Ministry, at the time of our audit, was recovering only about $200,000 through its water-taking charges.

As of January 1, 2009, a regulation under the *Ontario Water Resources Act, 1990*, allowed the Ministry for the first time to charge high-consumptive industrial or commercial water users (such as water-bottling companies and other companies that incorporate water into their products). These high-consumptive industrial or commercial users account for about 1% or 60 of the over 6,000 permit holders currently taking water in Ontario. The rate was set at $3.71 for every million litres of water that they take and was established based on the assumption that the affected users would take the maximum amount of water allowed under their respective permits. However, actual takings have been significantly less, resulting in much lower revenue than costs.

In his fiscal 2008 annual report, the Environmental Commissioner of Ontario weighed in on the regulation, stating that it will not meaningfully "promote the conservation, protection or wise management of Ontario's waters", despite the fact that this purpose is explicitly authorized by the regulation. The Commissioner went on to recommend that the Ministry establish fees that are proportionate to the full cost of administering the government's water quantity management programs. Both the 2012 Drummond report and the 2012 Ontario Budget suggested that the government should recover a greater portion of the province's water quantity management costs through water-taking charges.

In 2012, the Ministry conducted a review of its water-taking charges and found that actual water takings were 85% less than the permitted volumes, on average, resulting in lower revenues than originally expected. Based on these volumes, rates would have to increase significantly in order for the Ministry to recover the actual costs of its programs. At the time of our audit, the Ministry had begun working on proposals to Treasury Board and Management Board of Cabinet to phase in new water charges for both low- and medium-consumptive users and to increase the charge rates for high-consumptive users.

The Ministry Does Not Use All Information When Issuing Water Permits

As noted previously in this report, the development of source water protection plans requires Conservation Authorities to create advanced water budgets where water quantity threats have been identified. To date, six water budget studies have been carried out in five regions at a cost to the Ministry ranging from approximately $250,000 to $2.5 million per study. These studies were not only meant to be used for source protection planning, but also by the Ministry to support the review and approval of water-taking permits. The *Ontario Water Resources Act* requires that the Ministry, to the extent that information is available and relevant, consider the use of all water information (such as water budget studies) when issuing water-taking permits. However, at the time of our audit, we found that the water quantity studies had not been integrated into the permit program, and found no evidence that they were used in the permit evaluation and granting process.

RECOMMENDATION 10

To ensure the Ministry of the Environment and Climate Change will be able to recover the province's cost of administering its water quantity management programs, and to ensure the sustainability of sources of water in the province, the Ministry should:

- charge industrial and commercial users of either surface or groundwater sources in Ontario an appropriate fee; and
- refer to the relevant water budget studies prepared by Conservation Authorities when deciding to issue water-taking permits.

MINISTRY RESPONSE

The Ministry concurs with the Auditor General's recommendation that the province move toward further recovery of costs for administering its water quantity management program. Consistent with the recommendations of the

Commission on the Reform of Ontario's Public Services (the Drummond Report), the Ministry is working on proposals that would bring water charges towards full cost recovery and sustainability. This will be done in consultation with key stakeholders.

Current information contained in technical studies (i.e., water budgets) prepared by Conservation Authorities is shared within the Ministry to be considered in reviewing applications for water-taking permits. As more technical studies are completed, they will also be shared with staff for consideration in issuing water permits. The Ministry is updating internal procedures to formalize this process.

Chapter 4

Follow-up to 2012 Value-for-money Audits

It is our practice to make specific recommendations in our value-for-money audit reports and ask ministries, agencies of the Crown and organizations in the broader public sector to provide a written response to each recommendation, which we include when we publish these audit reports in Chapter 3 of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by management with respect to our recommendations.

Chapter 4 provides some background on the value-for-money audits reported on in Chapter 3 of our *2012 Annual Report* and describes the status of action that has been taken to address our recommendations since that time as reported by management.

Where hearings on our audits are held and reports issued by the Standing Committee on Public Accounts (Committee), we include a summary of the Committee's recommendations in the applicable section of this chapter. Our objective in providing this additional reporting is to help ensure that action is being taken by audited entities to address the issues that the Committee raised during the hearing and in any subsequent report to the Legislature. The Committee continued its extensive hearings on our special report on *Ornge Air Ambulance and Related Services* during 2014. It also held a hearing on our *2012 Annual Report* section on the Education of Aboriginal Students and a hearing on our *2012 Annual Report* section on the Long-term-care Home Placement Process, as well as a hearing on the unfunded liability of the Workplace Safety and Insurance Board, which we first reported on in 2011. The Committee did not issue any reports based on the findings from these hearings prior to the legislature dissolving in May 2014. Chapter 6 describes the Committee's activities more fully.

As noted in **Figure 1**, we are able to report that for 81% of the recommendations we made in 2012, progress has been made toward implementing our recommendations, although only 20% of them have been fully implemented. There are six recommendations (4%) that either cannot or will not be implemented for the reasons noted in the applicable section.

Our follow-up work consists primarily of inquiries and discussions with management and review of selected supporting documentation. In a few cases, the organization's internal auditors also assisted with this work. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively. The corrective actions taken or planned will be more fully examined and reported on in future audits and may impact our assessment of when future audits should be considered.

Figure 1: Overall Status of Implementation of Recommendations from our *2012 Annual Report*

Prepared by the Office of the Auditor General of Ontario

			Status of Actions Recommended			
Report Section	# of Recs	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
4.01 Cancer Screening Programs	5	10	4	6	–	–
4.02 Criminal Prosecutions	6	8	–	8	–	–
4.03 Diabetes Management Strategy	5	13	4	8	1	–
4.04 Drive Clean Program	6	13	2	7	3	1
4.05 Education of Aboriginal Students	5	14	1	13	–	–
4.06 Independent Health Facilities	5	16	–	8	8	–
4.07 Long-term-care Home Placement Process	4	10	–	8	2	–
4.08 Metrolinx—Regional Transportation Planning	11	15	5	9	1	–
4.09 Ontario Provincial Police	12	28	9	11	4	4
4.10 Tax Collection	6	11	5	5	1	–
4.11 University Undergraduate Teaching Quality	5	11	1.3*	6.3*	3.3*	–
4.12 Youth Justice Services Program	7	21	3	14	3	1
Total	**77**	**170**	**34.3**	**103.3**	**26.3**	**6**
%	**–**	**100**	**20**	**61**	**15**	**4**

* The status varied among the three universities audited in 2012.

Chapter 4

Section 4.01

Cancer Care Ontario

Cancer Screening Programs

Follow-up to VFM Section 3.01, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2	1	1		
Recommendation 2	2	1	1		
Recommendation 3	3	2	1		
Recommendation 4	1		1		
Recommendation 5	2		2		
Total	**10**	**4**	**6**	**0**	**0**
%	**100**	**40**	**60**	**0**	**0**

Background

Cancer Care Ontario is a provincial agency responsible for co-ordinating and overseeing cancer services in Ontario. Cancer Care Ontario directs health-care funding to hospitals and other care providers, with the aim of delivering quality and timely cancer services throughout the province. It is also responsible for implementing cancer prevention and screening programs. Screening that detects certain types of cancer at an early stage can have a major impact on mortality rates. Cancer Care Ontario has implemented cancer screening programs for breast, colorectal and cervical cancers.

In the 2013/14 fiscal year, Cancer Care Ontario incurred total expenditures of $69.3 million ($92 million in 2011/12) for cancer screening programs. Effective April 1, 2012, the Ministry directly pays radiologists for breast cancer screens conducted, whereas these payments were made directly by Cancer Care Ontario before this date. In 2011/12, funding for such payments amounted to $33.8 million, and in 2013/14, it amounted to $31 million. Therefore, a total of $100.3 million was spent on cancer screening by both Cancer Care Ontario and the Ministry in 2013/14.

Our *2012 Annual Report* assessed whether Cancer Care Ontario used established clinical evidence to decide what types of cancer warrant formal screening programs and how effective Cancer Care Ontario was in achieving high screening participation rates. Overall, we found that Cancer Care Ontario had implemented a number of good processes but was having difficulty meeting its participation-rate targets, especially for those segments of the population deemed to be at high risk for certain types of cancer.

Our major observations with respect to the three screening programs included the following:

- We noted that Cancer Care Ontario appropriately used recognized clinical evidence in deciding what types of cancer warranted formal screening programs. Both the Ministry of Health and Long-Term Care (Ministry), through a $45-million funding commitment in 2010, and Cancer Care Ontario, through its initiatives, recognized the need to increase screening participation rates, especially for people considered to be at increased risk for cancer.
- We found that as of the 2009/10 fiscal year, participation in breast cancer and cervical cancer screening achieved Ministry targets but fell short of Cancer Care Ontario's own targets. Colorectal cancer screening fell short of both the Ministry's and Cancer Care Ontario's targets, and almost half the targeted population remained unscreened. In total, from 2008 to 2010, only 27% of eligible women completed all three cancer-screening tests recommended for their age group. As well, participation in the screening programs appeared to have reached a plateau, and Cancer Care Ontario was looking at ways to address this.
- Wait times existed at various stages of the screening processes for all three types of cancer:
  - Mammography screening wait times for women with average risk for breast cancer ranged from just over two weeks to 10½ months; and Cancer Care Ontario found that for women considered at high risk for breast cancer, wait times for genetic assessments of screening eligibility averaged 84 days.
  - For colorectal screening, almost 30% of cases did not have the follow-up colonoscopies within the benchmark time established by Cancer Care Ontario. Our review of hospital records found instances where wait times were as long as 72 weeks for people with family histories and 17 weeks for those with positive fecal occult blood test results.
  - For cervical cancer screening, a Cancer Care Ontario preliminary review showed that the median wait time for a colposcopy (a follow-up diagnostic procedure on abnormal cervical Pap test results) for high-grade abnormalities was about three months.
- Though older women were at greater risk of dying of cervical cancer, they were screened at a much lower rate than younger women, while many low-risk younger women were screened more often than necessary.
- The level of quality assurance measures for each of the screening programs varied considerably. Cancer Care Ontario has a comprehensive quality assurance program for the breast cancer screening program. However, 20% of screenings took place outside Cancer Care Ontario's program and were not subject to the requirements. Cancer Care Ontario had some quality assurance processes in place for the colorectal cancer screening program, but none for the cervical cancer screening program.

Status of Actions Taken on Recommendations

Cancer Care Ontario and the Ministry of Health and Long-Term Care (Ministry) provided us with information in the spring and summer of 2014 on the current status of our recommendations. Cancer

Care Ontario is in the process of implementing our recommendations, with some recommendations already fully implemented and other recommendations with significant progress made.

Cancer Care Ontario is monitoring wait times for breast cancer screening through monthly performance reports and quarterly performance reviews with Regional Cancer Programs.

Cancer Care Ontario is working to increase participation in colon cancer screening and to improve its colon cancer screening efforts by replacing the guaiac fecal occult blood test with the more sensitive fecal immunochemical test. The fecal immunochemical test also has a better rate of detecting cancer and advanced pre-cancerous lesions. Cancer Care Ontario has completed a pilot project that reviewed the colonoscopies conducted in Independent Health Facilities to determine the colonoscopy activity in these facilities, to assess the impact that increased capacity for conducting colonoscopies had on quality of care and to assess the level of engagement of the facilities to their regional cancer programs.

For cervical cancer screening, Cancer Care Ontario has hired six Regional Cervical Screening/Colposcopy leads to monitor wait times for achievement of performance standards and to assess performance management, including colposcopy access, wait times and quality management in the cervical cancer screening program.

Work is still needed to increase the participation of people who do not have family physicians in screening programs; and to obtain screening data to enable Cancer Care Ontario to assess the work of cancer screening service providers and to measure the results against appropriate quality assurance standards.

The status of the actions taken on each recommendation is described in the following sections.

Cancer Screening Programs

Breast Cancer Screening

Recommendation 1

To improve breast cancer screening services to eligible participants, especially those considered to be at high risk of breast cancer, Cancer Care Ontario should periodically evaluate the wait times at each of its screening facilities.

Status: Fully implemented.

As well, Cancer Care Ontario should take measures to increase its capacity to expedite genetic assessments for women who have been referred to the high-risk program by their doctors.

Status: In the process of being implemented.

Details

In the 2012/13 fiscal year, Cancer Care Ontario began monitoring wait times for each of its Ontario Breast Screening Program (OBSP) facilities as part of monthly performance reports and quarterly performance reviews with Regional Cancer Programs. The wait times are evaluated on a monthly basis, and under-performing sites are discussed with senior management at the Regional Cancer Programs and action plans for improvement are developed.

While the OBSP does not have a standard wait time for mammography screenings, it has set targets for the time between the date a woman receives an abnormal mammogram screening result to the date of her diagnosis. OBSP has set a performance target by which 70% of clients with an abnormal breast cancer screening result are to be diagnosed within five weeks for cases without a tissue biopsy, and a performance target by which 90% of clients with an abnormal screen are to be diagnosed within seven weeks for cases with a tissue biopsy.

Data obtained from Cancer Care Ontario showed that in 2013/14, 92% of clients with an abnormal screening result were diagnosed without a tissue biopsy within five weeks, which improved on the target rate of 70%. However, 73% of clients with an abnormal screening result and needing a tissue biopsy had their diagnosis made in seven weeks, which is below the 90% target rate. Although the current result of 73% is below the 90% target, the number shows a steady increase from 62% in 2009/10 to its current rate.

Cancer Care Ontario has not set screening targets for women at high risk for breast cancer. This includes women with risk factors such as a specific genetic mutation, a family history that suggests hereditary breast cancer, a 25% or greater lifetime risk confirmed through genetic assessment, and having had radiation therapy to the chest before age 30 or more than eight years ago as treatment for another cancer or condition. Targets do not exist for the number of high-risk women to be screened or wait times for screening for a number of reasons. Cancer Care Ontario indicated that the high-risk program is new, so there is no appropriate basis of comparison to benchmark targets against; the population of high-risk women must be identified through risk assessment by physicians and other clinical staff (e.g., at genetics clinics), which makes it challenging to forecast volumes; and the client pathway through genetic assessment has not been measured well outside of the High Risk Ontario Breast Screening Program to enable target-setting for genetic assessment. Key wait times are now being measured so that the resulting data can be used to inform future target-setting efforts.

In 2012, Cancer Care Ontario conducted an evaluation of the High Risk Ontario Breast Screening Program after one year of operation to identify areas where improvements can be made. The report recommendations were shared with the Ministry in March 2013, and were broadly distributed to Regional Cancer Programs and OBSP sites that assisted in the development of the report.

The evaluation identified concerns with the funding model, program awareness and centralized co-ordination, as well as lower-than-projected referral and screening volumes. Implementation of the recommendations is currently in progress and includes measures to address funding. The funding changes are expected to increase the High Risk Ontario Breast Screening Program's capacity to expedite genetic assessments for women who were referred to this high-risk program by their doctors. In July 2013, Cancer Care Ontario presented its recommendations to the Ministry of Health and Long-Term Care for changes to the funding model. The changes included moving from funding nurses who help clients navigate the system on a rate-per-case basis to funding an allocated position. These changes will help retain staff in these roles and provide a workforce for the High Risk Ontario Breast Screening Program. The payment made for each genetic assessment was also increased from $250 per case to $300 per case, to more closely reflect the costs of administration and clinical support for these assessments.

Colorectal Cancer Screening

Recommendation 2

To increase participation and improve its colon cancer screening efforts, Cancer Care Ontario should:

- *examine and work to address the concerns doctors have with the effectiveness of the Fecal Occult Blood Test as a screening tool; and*
  Status: In the process of being implemented.

- *explore approaches for reducing the wait times for colonoscopy procedures, especially those for increased-risk patients.*
  Status: Fully implemented.

Details

According to Cancer Care Ontario, between 2008 and 2012, overall colorectal cancer screening participation increased from 48.1% to 53.2%. The increase was due to increased colonoscopies and flexible sigmoidoscopy procedures, as the guaiac fecal occult blood test participation rates have levelled off at 30%. To increase participation rates and to address concerns that doctors have about the effectiveness of the guaiac fecal occult blood test, Cancer Care Ontario reviewed evidence on the fecal immunochemical test (FIT) in 2011 and concluded that the FIT performs more effectively than the guaiac fecal occult blood test. The FIT has increased sensitivity and better rates of detection of cancer and advanced adenomas (pre-cancerous lesions), and the test is favourably regarded by physicians. A two-phase pilot study was conducted to examine specimen stability and the impact of kit distribution and return methods on participation. Cancer Care Ontario planned to implement the FIT on the basis of the results of this pilot study. Cancer Care Ontario's 2014–2017 Annual Business Plan states that Cancer Care Ontario is planning to move from use of the guaiac fecal occult blood test to the FIT. Ongoing discussions to plan this transition are taking place with the Ministry of Health and Long-Term Care. Implementation of the FIT as a screening test for the colorectal cancer screening program ColonCancerCheck is targeted for the 2017/18 fiscal year. Cancer Care Ontario plans to conduct an evaluation after the implementation of the FIT.

In 2013, to explore approaches to reduce wait times for colonoscopy procedures, Cancer Care Ontario completed a two-phase pilot project examining colonoscopies conducted in out-of-hospital premises or clinics. The first part of the review included understanding colonoscopy activity in out-of-hospital premises (for example, the operational processes, patient volumes by indication, quality of care, and staffing trends). The second phase determined the ability of out-of-hospital premises to increase colonoscopy capacity for ColonCancerCheck indicators (abnormal fecal occult blood tests and family history), assessed the out-of-hospital premises' ability to maintain the quality of care provided when their capacity for conducting colonoscopies increased, and assessed the level of engagement between the out-of-hospital premises and their respective Regional Cancer Programs. It was found that the majority of the out-of-hospital premises in this pilot met the benchmarks for wait times, and the quality of colonoscopies performed in these premises were comparable to the quality of those performed in hospitals.

Since our 2012 audit, all colonoscopy agreements between Cancer Care Ontario and hospitals that perform colonoscopies under the ColonCancerCheck program include wait-time provisions. The agreements require hospitals to examine wait-time data on a regular basis, analyze reasons patients are waiting beyond target time frames, and establish processes to monitor and manage wait times for colonoscopies. Hospital wait-time performance is discussed with the Regional Cancer Program through quarterly performance reviews and reports. The Regional Cancer Program also has access to monthly reports of hospitals, and reviews these to monitor and manage wait-time performance, including colonoscopies.

Based on the monthly hospital data collected by Cancer Care Ontario, the percentage of individuals getting a follow-up colonoscopy after a positive fecal occult blood test result has increased from 62% in 2009/10 to 81% in 2013/14. In 2013/14 it exceeded the wait-time benchmark of 75% getting a follow-up colonoscopy within eight weeks of the referral. The percentage of individuals with a family history of colon cancer getting a colonoscopy within the established wait-time benchmarks increased from 76% in 2009/10 to 88% in 2013/14. In 2013/14, more than 80% of these individuals got a colonoscopy within the benchmark of 26 weeks. These improvements are due to increased monitoring of colonoscopy wait times and the increased numbers of colonoscopies performed both at hospitals and at out-of-hospital premises or clinics.

As of March 25, 2014, Cancer Care Ontario had recruited nine of a planned 13 Regional Colorectal Screening/Gastrointestinal Endoscopy Leads. These are new positions that did not exist at the time of our 2012 audit. The role of the leads is to assist regions with performance management and improvement, including colonoscopy wait times.

Cervical Cancer Screening

Recommendation 3

To improve the effectiveness of its cervical cancer screening services, Cancer Care Ontario should:

- *target promotional and educational efforts to increase participation and rescreening rates among older women;*
  Status: In the process of being implemented.
- *educate the public and health-care providers on appropriate cervical cancer screening intervals; and*
  Status: Fully implemented.
- *monitor wait times for colposcopy procedures for timely follow-up of women with abnormal Pap test results.*
  Status: Fully implemented.

Details

In our *2012 Annual Report*, we noted that the highest rates of cervical cancer screening participation were among women aged 20 to 29 years, and the lowest rates were among women aged 60 to 69 years. Older women have increased risk of developing and dying from cervical cancer, yet younger women, who have a lower risk of cervical cancer, have the highest rates of Papanicolaou (Pap) test screening.

Cervical cancer screening data for 2012 and beyond was not available at the time of our follow-up audit. In August 2012, Cancer Care Ontario updated its cervical cancer screening guidelines. The guidelines state that cervical cancer screening is now recommended starting at age 21 and at intervals of every three years until age 70 for women who are or have been sexually active; screening is not recommended for women under the age of 21.

In January and October 2013, government health payments were amended to correspond to the new cervical cancer screening guidelines. Routine cervical cancer screening is now funded once every 33 months if the previous Pap test results were normal. However, government health payments do not provide incentives to increase screening of older women, such as those aged 50 to 69 years.

Cancer Care Ontario has implemented several education initiatives for the public and their health-care providers. It has launched promotional and educational campaigns through media and social media to raise awareness of the new cervical cancer screening guidelines and to encourage Ontarians to speak to their health-care providers. Examples included the "It's Time to Screen" campaign and materials on appropriate cervical cancer screening intervals that the Regional Cancer Programs could customize for their local communities during Cervical Cancer Awareness Week in October 2013. Cancer Care Ontario also created and distributed knowledge products and clinical tools to primary care providers to educate them on appropriate cervical cancer screening intervals.

In November 2013, Cancer Care Ontario implemented the Ontario Cervical Screening Program invitation letter campaign targeting women in Ontario between the ages of 30 and 69, and a cervical screening recall letter campaign targeting women between the ages of 21 and 69 years who were due for screening. As of May 23, 2014, a total of 1,825,000 invitation and recall letters (and reminder letters) were sent to eligible Ontario women. At the time of our follow-up, Cancer Care indicated that the evaluation of the invitation letter campaign is scheduled to commence in the second quarter of the 2014/15 fiscal year.

Cancer Care Ontario will be expanding a tool called the Screening Activity Report, which provides family physicians with screening information on all their rostered patients, to include cervical cancer screening data. This will help physicians to follow up with patients who may require colposcopy after an abnormal screen result.

Cancer Care Ontario monitors colposcopy wait times on an annual basis, and tracks follow-ups for women with high-grade abnormal cytology, which is reported in the annual Ontario Cervical Screening Program Report.

For women who receive a high-grade abnormal result on a Pap test, Ontario colposcopy standards recommend a colposcopic follow-up in less than eight to 12 weeks. To monitor achievement of performance standards and to assess performance management, including colposcopy access, wait times and quality management in the Ontario Cervical Screening Program, Cancer Care Ontario has recruited six Regional Colposcopy Leads.

Cancer Screening for People with No Family Physicians

Recommendation 4

The Ministry of Health and Long-Term Care should monitor and assess current Cancer Care Ontario initiatives designed to improve participation in screening programs among people who do not have family physicians to gauge their effectiveness.

Status: In the process of being implemented.

Details

In April 2012, Cancer Care Ontario initiated a process to assist participants in its Ontario Breast Screening Program and ColonCancerCheck screening programs who did not have a family physician to enroll with one through the Ministry's Health Care Connect program. Participants in the screening programs who receive an abnormal screening result will receive a letter from Cancer Care Ontario encouraging them to register with Health Care Connect. When registered, participants who have abnormal screening test results are identified by Health Care Connect as a priority for referral to a family physician accepting patients within their local community.

Although ministry data is available on the total number of individuals registered with the Health Care Connect program, data is not available to track the number of patient participants from ColonCancerCheck and the Ontario Breast Screening Program who were referred to a family physician through this program. The Ministry indicated that it will explore the feasibility of tracking future enrollments of unattached patient participants in ColonCancerCheck programs and the Ontario Breast Screening Program through Health Care Connect.

Cancer Care Ontario informs the Ministry of its initiatives designed to increase cancer screening participation among individuals without a family physician. Over the two years from 2010/11 to 2011/12, Cancer Care Ontario conducted regional pilots in five different Local Health Integration Networks (Champlain, Erie St. Clair, North East, North West and Toronto Central) in specific communities that are under-screened or have never been screened, including Aboriginal and immigrant groups. The project goals were to increase cancer screening participation in these communities, increase knowledge about healthy behaviours that decrease risks of getting some types of cancer using culturally appropriate tools, and build partnerships between these communities and large health providers in the area. Cancer Care Ontario's evaluation of these pilot projects in 2014 showed there were some improvements in screening knowledge and screening rates for certain regions through the project efforts, the reports also highlighted the challenges, such as cultural and educational differences, faced by the various groups in these regions.

To increase breast, cervical and colorectal cancer screening participation among people who do not have a physician, Cancer Care Ontario operates mobile coaches in the North West (Thunder Bay) and Hamilton Niagara Haldimand Brant Local Health Integration Network regions. These coaches provide breast cancer and cervical cancer screening services and distribute colorectal cancer screening kits.

In addition to implementing the above initiatives, Cancer Care Ontario has made colorectal cancer screening kits available to unattached patients at pharmacies and via TeleHealth Ontario. Also, in March 2014, Cancer Care Ontario launched an Ontario Breast Screening Program invitation letter campaign targeting women between the ages of 50 and 74.

The Ministry is working jointly with Cancer Care Ontario to address the need to increase participation through a joint steering committee. In addition, the Accountability Agreement between the Ministry and Cancer Care Ontario sets out the initiatives to be implemented and the dates for completion and evaluation.

Monitoring for Quality of Services

Recommendation 5

To ensure that Ontarians are receiving quality cancer screening services, Cancer Care Ontario should work with the Ministry to:

- *establish monitoring procedures to ensure that quality assurance requirements are met for screening of breast, colorectal and cervical cancers, regardless of whether they are provided under programs established by Cancer Care Ontario or other service providers; and*
  Status: In the process of being implemented.
- *obtain screening data so it can review and assess the work performed by all service providers and measure the results against appropriate quality assurance standards.*
  Status: In the process of being implemented.

Details

To address quality assurance for screening of breast cancer, Cancer Care Ontario has created a "Policies and Procedures" manual, containing expectations for mammography equipment and facilities inspections and audit practices for client charts (patient files), to which all OBSP sites must adhere.

Cancer Care Ontario monitors OBSP sites to ensure that all recommendations from inspections conducted on equipment used to provide OBSP screening services are addressed on a timely basis. These inspections assess whether mammography equipment and facilities achieve or maintain accreditation with the Canadian Association of Radiologists Mammography Accreditation Program (CAR-MAP). Cancer Care Ontario also expects that its manual will help reduce the variation in chart audit practices at OBSP sites.

Cancer Care Ontario completed its 2011 Interval Cancer Reviews in 2013 and addressed the backlog of cases that existed at the time of our 2012 audit. This entailed reviewing cases in which a woman was diagnosed with cancer after having had a previous screening test that reported normal results. The review determines if the cancer was missed at the previous screening or whether the cancer developed subsequent to the screening, and informs OBSP radiologists.

Cancer Care Ontario is currently reviewing and updating the procedures contained in its "Policies and Procedures" manual. The updated manual will be communicated to the OBSP sites in the fall of 2014 and will reflect detailed requirements and expectations for the screening sites.

To ensure that consistent quality standards are in place at all mammography screening sites across the province, regardless of service provider, Cancer Care Ontario has recommended to the Ministry that all screening for breast cancer should be done within the Ontario Breast Screening Program.

Ministry data on mammography screening volumes through OBSP and non-OBSP sites for the three fiscal years from 2011/12 to 2013/14 shows that the number of screens in OBSP sites (and therefore subject to Cancer Care Ontario quality assurance processes) has increased over this period from 74.5% to 79%.

Cancer Care Ontario has worked with the Ministry and the Ontario Hospital Association (Association) to encourage all hospitals to undertake the CAR-MAP accreditation. In August 2012, the Association issued a bulletin to its members to encourage all hospitals to become CAR-MAP accredited, if they had not already done so. In addition, the College of Physicians and Surgeons of Ontario revised the Clinical Practice Parameters and Facility Standards for Independent Health Facilities to include a requirement that equipment and quality control activities at these facilities meet the CAR-MAP accreditation standards and that all facilities providing mammography services must be accredited by January 2014.

The Ministry has indicated that of the 161 Independent Health Facilities providing mammography services, 77 (48%) are CAR-MAP accredited and 50 (31%) more are in the process of completing the accreditation process. The Ministry does not track the number of non-OBSP hospitals that are CAR-MAP accredited; however, based on the Canadian Association of Radiologists list of CAR-MAP accredited hospitals, the Ministry estimates that 7 of the 29 non-OBSP hospitals providing mammography screening are CAR-MAP accredited. The Ministry is working with Cancer Care Ontario to transition all non-OBSP sites into OBSP sites.

In addition, work is under way between Cancer Care Ontario and the College of Physicians and Surgeons of Ontario to address quality assurance at the physician and facility level in mammography, colonoscopy and pathology. Cancer Care Ontario has also worked with the Ministry to develop the *Quality-Based Procedures Clinical Handbook for Gastrointestinal Endoscopy*, which was effective on April 1, 2014.

To address quality assurance for screening of cervical cancer, work is also underway on quality-based procedures that are scheduled to be implemented on April 1, 2015. Cancer Care Ontario's colposcopy standards recommend that colposcopists perform a minimum of 100 new and follow-up colposcopies each year, including a minimum of 25 new cases per year, in order to maintain competency.

Cancer Care Ontario is working to obtain screening data to facilitate monitoring of quality assurance, as follows:

- For breast cancer screening, Cancer Care Ontario is undertaking a redesign of its integrated Client Management System, the database that provides an integrated set of data for each client screened in the OBSP, for the purposes of program administration, management and evaluation. Cancer Care Ontario has completed a review of breast screening data collection requirements and design. A minimum data set is available, which can be used for future collection of non-OBSP breast cancer screening data. The redesign work is targeted for completion by March 2015.
- For colon cancer screening, Cancer Care Ontario continues to operate its Colonoscopy Interim Reporting Tool, which collects the necessary data to assist in tracking current colonoscopies performed at participating hospitals by both volume and quality.
- For cervical cancer screening, Cancer Care Ontario does not have a colposcopy data registry to collect information such as the reason for colposcopy, the colposcopic findings, the number of biopsies taken, or management decisions or rationale for decisions for use in evaluating quality. A colposcopy data collection tool is planned for 2014/15. At the time of our follow-up, a draft of the minimum data set has been created. This will need to be validated by the Cervical Scientific and Clinical Leads. Once it is validated, Cancer Care Ontario will create a plan for the tool development and implementation. This project is still in early stages.

Chapter 4

Section

4.02 Criminal Prosecutions

Ministry of the Attorney General

Follow-up to VFM Section 3.02, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	1		1		
Recommendation 2	1		1		
Recommendation 3	3		3		
Recommendation 4	1		1		
Recommendation 5	1		1		
Recommendation 6	1		1		
Total	**8**	**0**	**8**	**0**	**0**
%	**100**	**0**	**100**	**0**	**0**

Background

The Criminal Law Division (Division) of the Ministry of the Attorney General (Ministry) prosecutes criminal charges on behalf of the Crown before provincial courts. The Division received about 229,000 cases in 2013 and about 247,000 in 2012. Criminal cases, which often involve multiple charges, are received each year from more than 60 police forces in Ontario. A Crown attorney is to prosecute a criminal charge only if it is in the public interest to do so and there is a reasonable prospect of conviction.

The Division operates from a head office in Toronto, six regional offices and 54 Crown attorney offices across the province. The Division's operating expenses totalled $254 million in 2013/14 fiscal year ($256 million in the 2011/12 fiscal year), 86% (84% in 2012) of which was spent on staffing. The Division employs about 1,500 staff (1,500 in 2012), including about 950 (950 in 2012) Crown attorneys. (Crown attorneys, deputy Crown attorneys, and assistant Crown attorneys are appointed under the *Crown Attorneys Act*. We refer to all these positions collectively as Crown attorneys or prosecutors.)

In our 2012 report we noted that the number of Crown attorneys and the overall staffing costs for the Division had more than doubled since our last audit in 1993. Yet the number of criminal charges that Crown attorneys disposed of per year had not substantially changed—572,000 in 1992, compared to 576,000 in 2011.

We noted that partly as a result of the Charter of Rights and Freedoms, many cases were more complex than they used to be, so more time was needed to prosecute them. Also, more Crown attorneys had been assigned to cases involving guns and gangs and other dangerous and high-risk offenders. However, it was difficult to gauge the actual impact of this on prosecutors' workloads because the Division made little use of data to analyze the relative workload, efficiency and effectiveness of its Crown attorneys. Instead, it relied more on informal oversight by senior staff at each of the 54 Crown attorney offices. We had reported the same issue in 1993 and we stated again in 2012 that we continued to believe the Division would benefit from having information systems to provide it with reliable data on prosecutors' workloads, the outcomes of prosecutions, the average time it takes to resolve charges, and other key performance indicators, at the level of both local offices and individual Crown attorneys. We reported that the Division could also make better use of information on court activities that is already available, until it completed the development of its own information systems.

Our other major 2012 observations included the following:

- The Division did not formally assess its prosecutorial performance. It did not gather information on how efficiently charges were screened by Crown attorneys before a case was prosecuted; how long it took Crown attorneys and staff to prepare cases; whether court diversion programs for resolving minor criminal charges were used appropriately; the number of bail release applications and their results; and the outcomes of cases. For example, the rates at which some Crown attorney offices went to trial were up to 20 times higher than the rates of other offices.
- No staffing model had been established to determine how many Crown attorneys should be at each local office, and there was no benchmark for what a reasonable workload for each Crown attorney should be. Workloads varied significantly among local offices and between regions—572 charges per Crown attorney at one office and 1,726 at another office, for example.
- Of the Division's six regions, the Toronto Region disposed of the most charges in total in fiscal 2011/12, but it did so at the highest cost per charge—$437, compared to the average of $268 for the other regions. The Toronto Region also disposed of an average of 40% fewer charges per Crown attorney than the average of other regions.
- A electronic case-management system, originally projected to cost $7.9 million and be completed by March 2010, had been significantly delayed because of weak project management oversight, and the fact that insufficient resources had been dedicated to the project.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

The Division has made some progress on all of the recommendations we made in 2012; however, the Division will not be able to further improve and demonstrate its efficiency and effectiveness until its information and case management systems are completed and fully implemented in all its Crown attorney offices across the province, scheduled for April 2016. The Ministry was developing key performance indicators specifically for the Division. The Division should also have its own annual report as of the year ending March 31, 2015, which is planned to contain more useful information about its prosecution services.

The status on each of our recommendations is as follows.

Managing Operations

Recommendation 1

To ensure that decisions on the use of legal and support staff resources and results of prosecutions are supported by timely, relevant and accurate information, the Criminal Law Division of the Ministry of the Attorney General should identify what information is needed and develop systems as soon as possible to deliver this information to its regional and local Crown-attorney-office management. The Ministry should also use this information to hold the Division accountable for demonstrating the cost-effective use of its resources. Until such time as the Division can gather its own information on its activities, it should make better use of the available ministry information on courthouse activities to more effectively oversee operations and report on its use of resources.

Status: In the process of being implemented.

Details

The Division completed a review of existing information and data relating to prosecutions within the Ministry in order to identify gaps. It has also canvassed other jurisdictions to consider how information is managed by their prosecution services. Subsequently, the Ministry decided to cancel its ongoing Crown Management Information System (CMIS, discussed later under recommendation 5) and replace it with a new Crown management system named SCOPE (Scheduling Crown Operations Prepared Electronically). SCOPE, a system in use at one of the 54 Crown offices for a number of years, has been re-engineered for use across the entire Division. Specific business intelligence data that will be captured includes:

- number of matters that are diverted;
- number of bail release applications;
- specificity on bail release conditions;
- information on bail release violations;
- specificity on disposition types and reasons;
- reasons for stays and withdrawals of charges;
- reasons for adjournments; and
- information on guilty pleas and guilty verdicts.

SCOPE will also make a number of business processes more efficient. For example, it allows more than one person to work on a case file at a time. As well, electronic case supporting materials can now be stored as part of the case file and will not go missing as did paper files; SCOPE tools will be used at every office in the same way; and offices in other locations across Ontario will be able to view files elsewhere, eliminating the physical transfer of paper files. SCOPE will allow the Division to better support electronic Crown briefs submitted by police. At the time of our follow-up, six police forces, including Toronto, were submitting Crown briefs electronically. The Division plans to complete the rollout of SCOPE to all Crown offices across the province by April 2016. The Division was working with the Ministry's Justice Technology Services to address infrastructure issues such as bandwidth and server environments, and was assessing Crown and court locations identified as potential key roll-out sites.

To make better use of available ministry information in the meantime to more effectively oversee operations and report on its use of resources, the Division has continued participating in the Ministry's Justice on Target (JOT) strategy to make the courts more effective and efficient.

In 2012, a regional Director of Crown Operations co-chaired a JOT metrics committee that established case progression benchmarks that take case complexity into account. This included changing the measurement from the number of charges to the number of cases, which the Ministry considers a better indicator of prosecutors' work volume because the charging practices of police vary. (Other Canadian jurisdictions also capture and report data on a case basis rather than a charge basis, so the change will allow Ontario to see how it compares.) A baseline for 2011 data was then established regarding how many appearances and the number of days it took to dispose of cases in three categories: less complex, more complex, and combined federal and provincial cases. Regional directors of Crown operations, together with criminal court leaders, established annual local goals for each site in their jurisdiction to improve performance. The first full year of reporting against targets will be for the 2013 calendar year.

Reporting on the ministry website for the JOT metrics occurred semi-annually for the preceding 12 months, with the most recent reporting period ending June 30, 2013. The results for the period showed improvement upon the 2011 benchmarks. The Ministry will be reporting once annually going forward and was to report for the 2013 calendar year at the end of September 2014.

The Ministry advised us that additional innovations in case management are taking place under the JOT strategy, as discussed below.

- A case-management forum was held in February 2014. Leading practices were shared and a commitment was made by each court location on steps needed to improve case progression. The Assistant Deputy Attorneys General of the Court Services Division and the Criminal Law Division were to support and monitor implementation of the commitments. At the time of our follow-up, the governance structure for the JOT had recently changed, and the Expert Advisory Panel had not held any further meetings in 2014. The two Assistant Deputy Attorneys General (Court Services Division and Criminal Law Division), the Associate Deputy Attorney General and the Associate Chief Justice are effectively the JOT's governance committee.
- The Crown-led initiatives pool assigns a temporary Crown office resource to assist in implementing new case management improvement initiatives developed within Crown offices. The additional staff person helps prevent negative impacts on day-to-day operations while the implementation is in process. To date, these case management improvement initiatives have introduced efficiencies in: trial readiness and triaging of cases scheduled for trial; bail; youth cases; earlier resolution; case management; and alternative dispute resolution.
- The Bail Experts Table was formed in June 2012 and includes representatives from the Division and other stakeholders involved in the bail phase of prosecution. In October 2013, their 34 recommendations and 10 leading practices were finalized, and the Division is playing a role in their implementation. Recommendations include the establishment and regular meeting of local committees for identifying and addressing bail issues, and the development of a protocol between courts and detention centres to minimize disruption should problems arise in the transport of accused from detention centres to court.
- As of April 1, 2014. the Division instituted a new standard practice requiring Crown attorneys to report delays that have occurred in individual cases to their regional director in two instances: where a whole case is withdrawn because the Crown attorney believes a stay would be ordered due to the delay; and where defence applications have or have not been successful for withdrawal of cases based on protections offered under Section 11(b) of the Canadian Charter of Rights and Freedoms. As reducing the number of cases lost due to delay is important to the Division, delays of this sort are now reported on a quarterly basis to the Assistant Deputy Attorney General and they will be included in the Division's first annual report, scheduled to be published for the year ending March 31, 2015.

Oversight Of Prosecutors

Recommendation 2

In order for the Criminal Law Division to adequately oversee its prosecutions, monitor its costs and assess its performance, it should regularly analyze the trends, *rates and reasons for stays and withdrawals, adjournments, trial rates, bail release violations, guilty pleas and guilty verdicts, and use of diversion programs. In addition, the Division should compare its performance to other provinces and, where Ontario's overall trends differ from those of other large provinces, determine the reasons for such differences.*

Status: In the process of being implemented.

Details

The Ministry's new software application, SCOPE, is being developed to allow the Division to gather its own meaningful and relevant data to enable performance assessment and analysis of trends. Over time, incremental program enhancements will increase the capabilities of the system. The system will collect data, including reasons for stays and withdrawals, adjournment data, trial rates, bail release violations, plea data and case resolution data. SCOPE will also produce case information reports and identify outcomes, trends and reasons for dispositions in criminal proceedings. In November 2013, SCOPE was implemented in Toronto offices, which handle about 30% of the criminal cases prosecuted in the province.

In addition, the Division is providing learning and skills development training to its staff to support oversight of effective and timely prosecutions. The Ministry, along with the Richard Ivey School of Business and the University of Western Ontario Business School, developed an executive leadership program focused on leading and managing change, applying evidence-based decision-making, applying process improvements, and leading and developing staff. This program was provided to almost 100 Crown attorneys.

In addition to the executive leadership program, the Division was working with the Ivey School on a leadership development program that would effectively support the ability of Crown attorneys to oversee prosecutions. The program is intended to help create a culture of communication and collaboration and promote an organization-wide perspective of a "one law firm" approach.

At the time of our follow-up, development of the program was expected to be completed by the fall of 2014, and directors, regional managers and corporate managers were to start taking the course in January 2015.

SCOPE is expected to allow trends to be examined across the Division and provide the necessary data and business intelligence information to make meaningful jurisdictional comparisons. However, these comparisons will be limited to the extent that other provinces have similar systems in place for gathering data, and have similar functionality. The Division states that five other Canadian jurisdictions have expressed an interest in SCOPE as a Crown management system for their own use.

The Division has taken additional qualitative and quantitative steps regarding oversight of its prosecution services. The Division convened a special meeting regarding case management in early 2014 with the Federal/Provincial/Territorial Heads of Prosecution Committee to compare efforts regarding resource allocation and methodology, and to seek advice regarding the path Ontario was taking to allocate resources effectively.

Managing Workloads

Recommendation 3

To ensure that Crown attorneys have the workload flexibility to devote a similar amount of time to charges of a similar nature, the Criminal Law Division should:

- *establish benchmarks for what a reasonable workload for each Crown attorney should be;*
  Status: In the process of being implemented.

Details

The Division has set a goal to work toward a comparison of Crown attorney workload and workforce metrics, and has taken a number of steps to implement this recommendation.

Since our audit, the Division has reviewed its previous attempts to measure Crown attorneys' workloads in order to set benchmarks and it has also researched other jurisdictions' attempts.

Developing a tool to measure and fairly allocate cases and balance workloads is a work in progress, given the many factors that influence a Crown attorney's workload, including the seniority of Crowns in the office, the number of administrative support staff, the frequency with which cases go to trial versus being resolved beforehand, and many others. As part of the discussions regarding such a tool, it was decided to categorize case difficulty in the SCOPE software application using different levels of complexity, and then provide data on the number of cases in each category. The case rating mirrors the rating approach used by the Public Prosecution Service of Canada.

The Division has documented the factors affecting workload, many of them beyond its control. Some workload factors are easily determined, such as case volume and case complexity. Other factors, which may be particular to the local office, are not, such as the litigious nature of the local defence bar, or the responsiveness of police in investigating and providing disclosure to the Crown. Additionally, cases are dynamic and their complexity can change throughout a prosecution. For example, a witness may later recant or not testify at trial, causing the Crown to have to seek out other ways to prosecute.

The Division convened a meeting with a number of Canadian federal and provincial heads of prosecution services in March 2014 to discuss and share experiences regarding resource allocation and methodology. The Ministry told us that many jurisdictions struggled with creating a model for workload measurement and resource allocation.

- *collect and analyze information on workloads and cost variances between regions and Crown attorney offices to identify opportunities to use resources as efficiently as possible and address inconsistencies; and*

  Status: In the process of being implemented.

Details

With regard to collecting and analyzing information on workloads and cost variances between regions and Crown attorney offices, the Division has compiled baseline staffing levels and case data for all Crown offices and is introducing a number of determinants of workload for the tool. The Ministry engaged consultants in the fall of 2013 to establish workload and workforce allocation metrics, and a "proof of concept" tool was delivered in July 2014 that can apply analytics principles to workforce and workload data. Technical issues had been resolved, but subjective factors that skew data from one Crown attorney office to another were being worked through. At the time of our follow-up, the Division was evaluating the tool and considering its applicability to its SCOPE project. Any reallocation of staff that the results suggest is warranted will still have to be further evaluated and changes negotiated through the collective bargaining process.

- *ensure that management has the ability and flexibility to address temporary and permanent workload pressures by, for example, relocating prosecutors and support staff between Crown attorney offices, and using contract lawyers where and when appropriate.*

  Status: In the process of being implemented.

Details

With regard to ensuring that management has the ability and flexibility to address temporary and permanent workload pressures, the Division prepared a business case in February 2014, requesting the creation of a "flex counsel pool" that would alleviate workload pressures by enabling the reallocation of resources to Crown attorney offices with the greatest need. The flex counsel pool would consist of existing, experienced Crown counsels, who would backfill for those Crown attorneys assigned to initiatives such as bail vetting and early resolution of cases, and others in Crown offices who need experienced assistance. The Division received ministry approval for seven positions; however, it will also have to seek funding approval for the 2014/15 fiscal year to fill the positions. Currently, the Division continues to manage imbalances in workload caused by major criminal cases, when senior Crowns with well-developed skills are temporarily deployed to the Crown office prosecuting a major case. The redeployment allows the regular work to carry on at the Crown office along with the major crime prosecution.

Quality Assurance

Recommendation 4

To ensure that regional and division management have adequate assurance that cases are prosecuted in a consistent, timely and effective manner that meets expected standards, the Criminal Law Division should perform a periodic, objective review of a sample of files from each Crown attorney relating to the prosecutions each one handled during the year.

Status: In the process of being implemented.

Details

Following discussions with its regional directors, the Division prepared a business case in February 2014, requesting additional staff to implement a quality assurance process through a Divisional Inspectorate Office. The Inspectorate Office's mandate would be to investigate various aspects of criminal prosecutions to determine the reasons for specific outcomes and recommend improvement where necessary. The initiative is aligned with the Ministry's strategic goal of instilling a culture of continuous evaluation and improvement, increasing public reporting of outcomes and improving evidence-based decision-making. The Ministry approved eight new positions for establishing an Inspectorate Office; however, it will also have to seek funding approval for the 2014/15 fiscal year to fill these positions.

Also, as mentioned earlier, the Division was working with the Richard Ivey School of Business at the University of Western Ontario to develop a leadership development program to support the ability of Crown attorneys to effectively oversee prosecutions. Development of the program was expected to be completed by the fall of 2014. Directors, regional managers and corporate managers were to start taking the course in January 2015.

Crown Management Information System (CMIS)

Recommendation 5

To ensure that the paper-intensive processes currently used by the Criminal Law Division are replaced with an electronic case-management system to better manage and track prosecutions and staff resources, the Ministry of the Attorney General should significantly strengthen project management to mitigate the challenges posed by its Crown Management Information System (CMIS). In addition, the Ministry should formally evaluate existing case-management systems in other jurisdictions to identify any potential for achieving savings and shortening the time to get the required system in place.

Status: In the process of being implemented.

Details

Subsequent to our audit in 2012, the Ministry recognized that technology-related change management would be better addressed as a Ministry-wide initiative (that would also include the Division) to enable it to improve its business processes and improve efficiency of its operations. In response to pressures and criticisms that had been raised, the Ministry took four steps. It undertook a Ministry-wide strategic planning exercise; implemented an Innovation Office with a mandate for change management; changed its internal governance structure for information technology projects to introduce rigour and active management and measurement of IT initiatives; and replaced its program of large-scale technology-driven initiatives such as CMIS with targeted, incremental and strategic business-focused projects. The Ministry also reported to Treasury Board/Management Board of Cabinet on discontinuing the CMIS project because of: problems with governance, controllership and project management; considerable technology investment costs; its contribution to a loss of employee productivity in the Division; the lack of case management functionality; and significant system performance issues. Under the new change-management process of the Ministry, the Division has identified the following business-focused projects:

- electronic disclosure of the Crown brief, the report police services provide to the Crown attorney after they lay charges;
- audio and visual file disclosure;
- a defence counsel disclosure portal;
- criminal-case handling resource management and scheduling; and
- knowledge management and document management.

The new Criminal Law Division Innovation Committee chaired by the Assistant Deputy Attorney General includes members from key project stakeholders and oversees the project that has SCOPE replacing CMIS. The Committee meets weekly to manage its progress. The Division is funding the development and implementation of SCOPE internally, and has put in place a separate Financial Information Technology Governance Committee that meets monthly to review technology expenditures, validate changes, ensure accurate forecasts, and manage the total cost of ownership for maintenance and operation of existing computer systems.

To evaluate existing case-management systems in other jurisdictions, the Division canvassed prosecution services in other jurisdictions and conducted site visits. It decided to redevelop and enhance an existing software application named SCOPE that had been developed in a local Crown attorney office and used for some time as primarily a scheduling tool.

The Project Management Resource Centre of the Ministry's new Innovation Office helped the Division set up governance and project management for the SCOPE project, including a Toronto pilot project. According to the Ministry, the cost to redevelop the SCOPE application was about $380,000, as well as $910,000 for ministry salary costs allocated to the project. In addition, the Division spent $400,000 to implement a system to allow the Toronto Police Service to electronically transfer Crown briefs to Crown attorneys.

As of June l, 2014, the number of the CMIS installations at Crown offices in the province had been reduced from 10 to four. The Division plans to convert the remaining four CMIS legacy installations to SCOPE by March 31, 2015. The Division also plans to implement SCOPE in the remainder of the province within 24 months, starting with the major centres with the highest case volumes and most significant charges. At the time of our follow-up, the Division was working with the police community to determine its readiness for electronic disclosure and finalize a roll-out plan and budget for implementing SCOPE across the province.

Performance Measurement and Public Reporting

Recommendation 6

Particularly given the importance of the Criminal Law Division to the mandate of the Ministry of the Attorney General, the Ministry should develop performance indicators specifically for the Division, and should publicly report on the Division's progress toward those indicators. It should also consider liaising with other provinces' prosecution services to develop common performance measures that would allow for comparison, benchmarking and the identification of best practices.

Status: In the process of being implemented.

Details

The Division had established a steering committee to develop its first annual report for the year ending March 31, 2015. The report is expected to be made publicly available and will include a statistical review of the volume and nature of work done by the Division, as well as a description of initiatives, programs and training undertaken. The report is to be released in the spring of 2015.

The Division reported to us that it was continuing to explore quantitative and qualitative performance indicators, both within the Ministry and with other prosecution services for public reporting. The Division has canvassed other jurisdictions directly and through the Federal/Provincial/Territorial Heads of Prosecution Committee in 2013 and 2014 regarding two possible performance indicators: tracking stays of charges under Section 11(b) of the Charter of Rights and Freedoms; and their use of direct indictments. Such stays are the withdrawal of charges based on an individual's right to be tried in a reasonable amount of time. The Division attempts to keep the number of these stays to a minimum. On the other hand, direct indictments, when approved by a court under certain circumstances, allow cases to progress more quickly to trial because they avoid preliminary inquiries. The Division advised us that they found there was no consistent approach in other jurisdictions reporting information on stays and direct indictments.

The Ministry completed its ministry-wide 2014-19 strategic plan in September 2013, which identified its vision, mission, values and priorities, and it was developing key performance indicators to accompany the strategic plan. In the late fall of 2013, the Division announced its internal mission, vision and values statements, consistent with the Ministry strategic plan and strategies for communications, technology, learning and leadership. The Division was expected to develop measures that are aligned around the Ministry's key performance indicators.

As noted earlier, the Division continues to participate in the Justice on Target strategy and its efforts to reduce the average number of appearances and days to disposition for most cases in the system. The measures established for the Justice on Target strategy set annual targets for each courthouse to achieve. Progress on these targets has a direct impact on the efficiency of the Division's prosecution services.

Chapter 4

Section

4.03

Ministry of Health and Long-Term Care

Diabetes Management Strategy

Follow-up to VFM Section 3.03, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	**Status of Actions Recommended**			
		Fully Implemented	**In Process of Being Implemented**	**Little or No Progress**	**Will Not Be Implemented**
Recommendation 1	2	2			
Recommendation 2	3		3		
Recommendation 3	2		2		
Recommendation 4	3		2	1	
Recommendation 5	3	2	1		
Total	**13**	**4**	**8**	**1**	**0**
%	**100**	**31**	**61**	**8**	**0**

Background

Diabetes, which results from the body's partial or complete inability to produce and/or properly use insulin, is one of the most common chronic diseases in Ontario. It can lead to kidney failure, heart attack, stroke, amputation and blindness if poorly managed or left untreated. Type 1 diabetes, which accounts for 10% of cases, is not preventable and its cause remains unknown. However, Type 2 diabetes, which accounts for the other 90% of cases, is most often preventable with lifestyle changes that include healthier eating and exercise.

The number of people with diabetes in Ontario more than doubled from 546,000 in 2000 to 1.2 million in 2010, increasing further to 1.5 million in 2014. According to estimates made by the Canadian Diabetes Association, the number is expected to grow to 2.2 million by 2024. People with diabetes use the health-care system at about twice the rate of the general population, and the annual cost to Ontario's health-care system is expected to grow from $5.8 billion in 2014 to $7.6 billion in 2024.

Our audit objective in 2012 was to assess whether the Ministry of Health and Long-Term Care (Ministry) had adequate systems, policies and procedures in place to:

- monitor and assess whether service providers are meeting the needs of people with diabetes by providing them with timely access to appropriate and quality care;
- ensure funding and resources provided for the Ontario Diabetes Strategy (Strategy) are used cost-effectively; and
- measure and report periodically on the results and the effectiveness of the Strategy.

In 2008, the Ministry established a four-year, $741-million Ontario Diabetes Strategy (Strategy). The Strategy's short-term results were mixed. The availability of diabetes care was definitely improved. However, most diabetes service providers that were set up with Strategy funding were underused, and many told us that more of their funding should go toward preventive services. We noted in our 2012 audit that 97% of the funding was earmarked to treat people who already had diabetes, with only 3% for prevention initiatives.

In our *2012 Annual Report*, some of our other more significant observations were as follows:

- Efforts by eHealth Ontario (eHealth) to produce an electronic Diabetes Registry to allow physicians and the Ministry to monitor patient data had been problematic. eHealth had been working with a private-sector vendor on the Registry, but the original completion deadline of April 2009 was not met, and the proposed release date was extended many times. The contract with the vendor was eventually terminated in September 2012.
- In 2010, eHealth and the vendor signed a $46 million contract stipulating that the vendor would be paid only after the Diabetes Registry was launched. eHealth has acknowledged that this contract traded away much of the province's control over the project's design, progress and delivery time in exchange for price certainty. Although no payment had been made to the vendor and the Registry was cancelled in September 2012, the Ministry and eHealth incurred about $24.4 million in internal costs related to the Registry between 2008/09 and the time the project was cancelled.
- There has been considerable duplication and overlap in education programs on diabetes. The provincial Strategy runs 152 Diabetes Education Programs (DEPs), each with one or more Diabetes Education Teams consisting of a registered nurse, a registered dietician and other professionals. However, many hospitals and physicians' clinics have set up education programs of their own, with funding from other sources, leading to service overlaps and under-utilization of 90% of the DEPs.
- The Ministry needed to significantly enhance its monitoring of funds used by a not-for-profit organization to which it had been giving $20 million a year to manage and fund 47 DEPs in northern Ontario and a number of other diabetes service providers. The organization had paid a consulting firm $105,000 from the 2009/10 fiscal year to the time of our audit for such services as "advice on election strategizing" and "developing relationships with relevant political decision-makers." There were also instances where staff meal expense claims were not in line with government policy.
- The Ministry had significantly increased the number of in-province bariatric surgeries—from 245 in 2007/08 to 2,500 in 2011/12—to combat Type 2 diabetes in obese people. However, this still did not meet the current demand and was actually lower than the 2,900 surgeries done in 2009/10.

We made five recommendations in our *2012 Annual Report* for improvement and received commitments from the Ministry that it would take action to address them.

Status of Actions Taken on Recommendations

The Ministry provided us with information in the spring and summer of 2014 on the current status of our recommendations, indicating it has made significant progress in implementing several of the recommendations we made in our *2012 Annual Report*. In particular, to improve accountability and to ensure more effective regional system planning, the Ministry has transferred the oversight of most of the Diabetes Education Programs (DEPs) to the 14 Local Health Integration Networks (LHINs), which are responsible for planning, integrating and funding local health care. Subsequent to our audit fieldwork, the Ministry also terminated its agreement with a not-for-profit organization that managed and funded the DEPs in northern Ontario and pediatric DEPs across the province on behalf of the Ministry; our audit found that this organization did not use the Ministry's funding appropriately and did not comply with the Broader Public Sector Expense Directive. In addition, the Ministry has allocated additional funding to enhance access to specialized diabetes services, such as foot and wound care. Apart from the actions taken by the Ministry, eHealth Ontario (eHealth), which was responsible for developing and implementing the then-cancelled Diabetes Registry, has improved its contract terms for procurements of information technology projects. Work was still under way to address our recommendations regarding diabetes prevention and health promotion, improving diabetes education programs, and strengthening coordination of and access to diabetes-care providers.

The current status of the action taken on each of our recommendations is as follows.

Diabetes Registry and Baseline Diabetes Dataset Initiative

Recommendation 1

To allow for efficient and effective diabetes surveillance at the provincial level and to gauge the progress of the Ontario Diabetes Strategy, the Ministry of Health and Long-Term Care (Ministry) should work closely with eHealth Ontario (eHealth) and Infrastructure Ontario to:

- *ensure that eHealth's initiatives for chronic-disease prevention and management are implemented with an appropriate quality assurance process so that they meet the needs of physicians and other users; and*
  Status: Fully implemented.
- *implement measures based on lessons learned from using the total outsourcing system development model for the Diabetes Registry if this procurement process is used for future information technology projects.*
  Status: Fully implemented.

Details

At the time of our audit in 2012, eHealth had worked with a private-sector vendor on developing the Diabetes Registry; Infrastructure Ontario had also been involved in providing eHealth with procurement-management services such as performing a risk analysis before eHealth signs a contract with the vendor and monitoring the progress of the Diabetes Registry project. However, the original completion deadline of the Diabetes Registry was not met, and the proposed release date was extended many times. Subsequent to our audit fieldwork, eHealth terminated the Diabetes Registry project in September 2012. Since then, eHealth has taken the following actions to ensure that other information technology projects for chronic-disease prevention and management are implemented in a way that meets the needs of physicians and other users:

- eHealth is training its staff to use a business requirements framework to identify needs and develop solutions through business analysis for future information technology projects.

- eHealth has adopted a policy that holds individuals accountable for approving business requirements and for ensuring that test results comply with the requirements.
- eHealth has involved other stakeholders in its decision-making process. For example, a volunteer Patient Advisory Panel was established in April 2013. The panel, which includes patients with chronic diseases, caregivers and Ontario citizens, provides advice on eHealth's work. Working with eHealth, the panel has attended and participated in discussions to provide input on specific projects and solutions, as well as to identify and address potential concerns of patients, caregivers and the citizens of Ontario.

eHealth has also used the lessons learned from the Diabetes Registry project to improve its project governance and procurement practices by:

- requiring direct reporting from project teams to eHealth's executives via a project review committee that is chaired by eHealth's President and CEO, who reports to eHealth's Board of Directors. The committee is a key governance mechanism in providing oversight, decision-making and management of projects in eHealth to ensure that all approved projects support and align with eHealth's strategy; and
- improving the terms of the master agreement with vendors for procurements in any information technology projects, such as the Drug Information System project. Examples of such improvements include:
  - increasing eHealth's ability to exercise assignment and refusal rights over the selection of vendors' subcontractors;
  - providing eHealth with intellectual property and source code at various stages of the project, instead of only at the end of the project; and
  - limiting eHealth's liability and protecting eHealth against lawsuits and claims.

Diabetes Prevention and Health Promotion

Recommendation 2

To enhance the focus on prevention and early detection of diabetes as long-term, cost-effective strategies, the Ministry of Health and Long-Term Care should:

- *re-assess whether allocating only 3% of total dedicated diabetes funding to prevention initiatives is the most cost-effective long-term strategy;*

  Status: In the process of being implemented.

- *devise ways to identify, on a more timely basis, people with undiagnosed diabetes; and*

  Status: In the process of being implemented.

- *develop comprehensive health-promotion strategies that focus on all Ontarians and consider similar strategies used in other jurisdictions.*

  Status: In the process of being implemented.

Details

The Ministry has not re-assessed whether allocating only 3% of total dedicated diabetes funding to prevention initiatives was the most cost-effective long-term strategy, because the 3% figure includes only funding under the four-year Ontario Diabetes Strategy that came into effect in June 2008. In April 2012, the Ministry extended the Strategy for another four years, from 2012 to 2016, with new funding of $152 million, with about 6.6% of the funding being provided annually in the 2012/13 and 2013/14 fiscal years for diabetes prevention programs. In addition to this funding, the Ontario government has adopted a broader approach of integrating prevention and health promotion by investing in various programs to address common risk factors associated with chronic diseases, including but not limited to diabetes. For example, in each of the fiscal years 2012/13 and 2013/14, different ministries invested over $500 million collectively in various programs relating to childhood obesity prevention and reduction to promote healthy eating, physical activity and maternal health. Examples of such programs included EatRight Ontario and the Healthy Communities Fund under the Ministry of Health and Long-Term Care; the Healthy School Recognition Program under the Ministry of Education; and the Student Nutrition Program under the Ministry of Children and Youth Services.

The Ministry has taken the following actions to identify people with undiagnosed diabetes:

- The Ministry established a Diabetes Prevention and Screening Working Group in 2012 to lead the development of a consistent, integrated provincial framework for diabetes screening and early detection in Ontario. In March 2014, the provincial framework was completed. Currently, the Ministry is reviewing options for the framework's implementation.
- The Ministry provided multi-year funding of $504,000 for 2013/14 and 2014/15 to support expansion of the Primary Care Diabetes Prevention program across six out of over 180 Family Health Teams. This program is intended to improve prevention, screening and early intervention for Type 2 diabetes in primary-care settings such as Family Health Teams.
- The Ministry provided the University of Ottawa Heart Institute with one-time funding of $423,000 for three years from 2013/14 to 2015/16 for the implementation of a project to help identify undiagnosed diabetes and dysglycemia (abnormally high, low or unstable blood glucose levels) in five out of over 150 hospitals across Ontario.

The Ministry has developed and implemented health promotion strategies to improve health outcomes within different population groups, including Aboriginal people, children and youth, and smokers. These strategies share a focus on vulnerable and high-risk populations and the common risk factors—such as unhealthy eating, lack of physical activity, smoking and alcohol addiction—that contribute to chronic diseases, including diabetes. For example:

- The Ministry has increased its funding by 60% (from $4.7 million in the 2012/13 fiscal year to $7.5 million in the 2014/15 fiscal year) for existing health promotion programs run by Aboriginal organizations and tailored to their unique cultural traditions and knowledge. The programs include the Healthy Eating and Active Living Initiative; the Urban Aboriginal Healthy Living Program; and the Northern Fruit and Vegetable Program. They are based on Aboriginal culture and holistic approaches to address the multiple, related risk factors impacting the health of Aboriginal people and communities.
- In May 2012, the Ministry set up a Healthy Kids Panel to develop recommendations for government action to achieve a 20% reduction in childhood obesity in five years. To implement the panel's recommendations, the Ontario government launched an interministerial Healthy Kids Strategy in 2013 aimed at promoting the health of children and youth by focusing on supporting healthy pregnancy, achieving healthy weights and childhood development, and building healthy environments for children. This strategy is supported by a Ministers' Working Group that includes representatives from the Ministries of Health and Long-Term Care; Children and Youth Services; Agriculture and Food; Tourism, Culture and Sport; Municipal Affairs and Housing; Education; and Aboriginal Affairs.
- The Smoke-Free Ontario Strategy combines programs, policies, legislation and social marketing to reduce tobacco use, lower the risk to non-smokers, and reduce the overall smoking-related impact on the health of Ontarians. As part of the provincial strategy, the Ministry has implemented a school-based tobacco use prevention pilot program in 24 elementary

and secondary schools during the 2013/14 and 2014/15 school years.

- In September 2013, the Ministry announced new investments to increase supports for breastfeeding, which has been demonstrated to have a significant beneficial impact on long-term health outcomes and reduced incidence of chronic diseases, such as diabetes.

The Ministry engaged an external consultant to conduct an evaluation of health promotion initiatives for diabetes prevention. The evaluation report issued in January 2013 indicated both strengths and weaknesses of the initiatives based on consultation with diabetes-care providers:

- For strengths, the report noted that the diabetes prevention initiatives delivered a full spectrum of evidence-based diabetes prevention activities focused on high-risk populations across Ontario. Specifically, the activities directly reached over 48,000 people at risk of Type 2 diabetes and delivered public education and resources on diabetes prevention and risk factors to people across the province.
- For weaknesses, the report noted that the diabetes prevention initiatives did not flow from a clear overall strategy aligned with major agendas. To maximize the return on investment in diabetes prevention, the report provided several recommendations to the Ministry. For example, the Ministry should articulate an overall diabetes prevention strategy and should develop a comprehensive long-range diabetes prevention strategic plan that aligns with Ontario's Chronic Disease Prevention Framework as well as with international, federal and provincial strategies and programs.

To address the above weaknesses, the Ministry developed and implemented a broader risk-factor-based health promotion strategy that focuses on vulnerable or high-risk populations and common risk factors that contribute to chronic diseases, such as unhealthy eating and lack of physical activities. The Healthy Kids Strategy in 2013, noted previously, is one example of this broader strategy.

Diabetes Education Programs

Recommendation 3

To ensure that Diabetes Education Programs (DEPs) provide diabetes patients with consistent and quality care, and in compliance with applicable policies, the Ministry of Health and Long-Term Care should strengthen its oversight of DEPs and other recipients of diabetes funding by:

- *developing appropriate service-delivery and cost-effectiveness measures and requiring DEPs to periodically report on these measures; and*
  Status: In the process of being implemented.
- *conducting periodic site visits to selected regional, community and broader-public-sector organizations that receive diabetes funding.*
  Status: In the process of being implemented.

Details

The Ministry and the 14 Local Health Integration Networks (LHINs), which are responsible for planning, integrating and funding local health care, have taken the following actions to improve the accountability and oversight of Diabetes Education Programs (DEPs):

- Effective April 2013, the Ministry transferred the oversight of most DEPs to the LHINs, retaining oversight only of DEPs located in Aboriginal organizations, not-for-profit organizations and Family Health Teams because LHINs are not responsible for overseeing these organizations according to the *Local Health System Integration Act, 2006*. As of June 2013, the LHINs executed accountability agreements with the DEPs they now oversee. The agreements specified the reporting requirements for the DEPs and provided performance measures and accountability mechanisms or processes, including conducting site visits to selected DEPs. The Ministry has executed similar agreements with those DEPs for which the Ministry retained oversight responsibility. With respect to site visits, 301 were conducted by either a LHIN or the Ministry in 2013 and 2014. Specifically, 171 site visits were done in 2013, and 130 were done in 2014 by the month of September, with at least three more site visits planned for the remainder of 2014.

- To ensure more effective regional oversight and system planning, the Ministry terminated its agreement with a not-for-profit organization that had for over 20 years managed and funded the DEPs in northern Ontario and pediatric DEPs across the province on behalf of the Ministry. Our audit in 2012 found that this organization did not use the Ministry's funding appropriately and did not comply with the Broader Public Sector Expense Directive. After terminating the agreement with this not-for-profit organization, the oversight responsibility for all the DEPs previously belonging to this organization were transferred to either the Ministry or LHINs.
- In May 2013, the Ministry and the LHINs established a Joint Diabetes Planning and Management Committee. This committee's scope includes collaborative planning for the oversight, management and co-ordination of diabetes services and programs. In October 2013, a subcommittee, the Ministry–LHIN Performance Working Group, was established to develop performance indicators, common benchmarks and reporting templates for the DEPs to ensure reporting consistency across the province. The working group has completed consultations with diabetes service providers and administrators to ensure that the updated DEP reporting templates strengthen accountability and facilitate planning for diabetes services in communities across the province. The Ministry and the LHINs have worked together to update the Diabetes Policies and Procedure Manual in order to reflect changes made to the DEP reporting templates. The revised reporting requirements took effect on April 1, 2014, for all DEPs in the province. The Ministry held webinar training sessions on the revised reporting templates and the Manual for both LHIN-managed and Ministry-managed DEPs in March and April 2014.

Co-ordination of and Access to Diabetes-Care Providers

Recommendation 4

To improve co-ordination among diabetes-care providers and access to specialized diabetes care, the Ministry of Health and Long-Term Care should:

- *take into account the demand for and availability of diabetes services offered in community health centres, hospitals and Family Health Teams when allocating diabetes funding and other resources to avoid duplication or under-utilization of services;*

  Status: In the process of being implemented.

- *evaluate the need for the Diabetes Management Incentive, given the evidence indicating its lack of impact on encouraging physicians to provide continuous and co-ordinated diabetes management; and*

  Status: Little or no progress.

- *monitor whether people have timely and equitable access to diabetes-care specialists in high demand, such as foot-care specialists, especially where there is evidence that a lack of timely treatment is likely to result in hospitalization.*

  Status: In the process of being implemented.

Details

To avoid duplication or under-utilization of diabetes services, both the Ministry and the LHINs support and promote the integration of diabetes programs through Health Links established in December 2012. Health Links are a new way of co-ordinating local health care for patients who often receive care from several different providers.

Health Links specifically focus on improving the services available to patients with complex conditions or multiple chronic diseases, including diabetes. All Health Links have a co-ordinating partner, such as a Family Health Team, Community Health Centre, Community Care Access Centre or hospital. Therefore, Health Links encourage greater collaboration between existing local health-care providers, including family-care providers, specialists, hospitals, long-term care, home care and other community supports. Greater collaboration helps avoid any gaps and duplication in the care provided to patients and helps ensure that patients do not have to answer the same question from different providers but have a care provider they can call, eliminating unnecessary provider visits. The Ministry has encouraged the Diabetes Education Programs (DEPs) to develop relationships with their local Health Links to ensure better co-ordination of services for individuals with diabetes. For example, in Toronto Central LHIN, health-care providers in DEPs have collaborated with Health Links and provided diabetes education and management services at the Health Link site.

The Diabetes Management Incentive (DMI) was introduced by the Ministry in April 2006 to promote quality diabetes care by paying a $75 annual payment to physicians for co-ordinating, providing and documenting all required elements of care for each diabetes patient. Subsequent to our 2012 audit, in April 2013, the DMI was reduced to $60. To evaluate the need to continue this initiative, internal ministry consultations were under way at the time of our follow-up.

The LHINs, in consultation with the DEPs, were assessing the state of foot-care services and related service gaps at the time of our follow-up. Specifically, they were determining and monitoring whether people have timely, equitable access to diabetes-care specialists in high demand, such as foot-care specialists. Both the Ministry and the LHINs have taken the following actions to enhance access to diabetes-care specialists:

- In December 2013, the Ministry allocated about $1.2 million to support enhanced access to specialized diabetes services, including foot and wound care, in Aboriginal and First Nations communities in which the prevalence of diabetes and related complications is among the highest in the province. The funding was provided to 19 diabetes service providers for management of diabetes and related health concerns, including foot or wound care, nutrition and physical activity.
- The Ministry has continued to implement programs that address equitable access to diabetes specialists, including foot care. These include six Centres for Complex Diabetes Care (which provide specialized interprofessional services for individuals with diabetes and complex needs) in the Central West, North East, North West, Central, Mississauga Halton and Central East LHINs; and the North West LHIN Mobile Diabetes Service (which delivers care to individuals with diabetes in remote and rural areas).
- The Ministry was seeking interested First Nations, Métis and Aboriginal organizations to submit proposals for the provision of diabetes services, including those related to foot and wound care. If the Ministry decides to proceed, the selected organizations will receive funding to serve both adult and pediatric populations.
- The LHINs have developed foot-care pathways (a decision-making aid for diagnosis and treatment) and a foot-care tool kit for health-care providers, and partnerships with chiropodists have been developed to enhance foot-care services.

Bariatric Surgery

Recommendation 5

To ensure that people receive adequate, timely and quality bariatric surgical services across the province, the Ministry of Health and Long-Term Care should:

- *review trends of demand and capacity for bariatric surgery to identify gaps and needs, especially on a regional basis;*
  Status: Fully implemented.
- *consider providing the public with information on the average elapsed time between a physician's referral and completion of the required pre-surgery assessments; and*
  Status: In the process of being implemented.
- *periodically monitor surgical outcomes to determine whether hospitals offering this surgery need to go through an accreditation process as hospitals in the United States do.*
  Status: Fully implemented.

Details

After reviewing trends of demand and the capacity of bariatric surgery, in order to identify regional gaps and needs, the Ministry made the following changes to the referral process for bariatric assessment and treatment to ensure adequate and timely bariatric services across the province:

- To shorten wait times and travel times, patients residing in the London, Ontario, area are now assigned to the bariatric assessment centre in Windsor instead of to the assessment centres in Hamilton and Guelph.
- The bariatric assessment centre in Thunder Bay began offering bariatric surgeries in summer 2014 to meet the need for bariatric services in that region.
- The Ministry, in conjunction with the Ontario Bariatric Network, is considering requests from a bariatric assessment centre in Kingston and another hospital in London to become surgical sites in order to meet the need for bariatric services in those regions.

With regard to providing the public with information about the average elapsed time between a physician's referral and completion of the required assessments before bariatric surgery, all patients who attend an orientation session before bariatric surgery are advised of the average timelines to surgery (that is, from the time of the orientation session to the time of the surgery). Bariatric surgical centres also provide patients with information explaining that wait times to surgery can be contingent on several factors, including a patient's unique medical circumstances, the availability of specialists, and the booking of necessary medical tests. The Ministry has published wait times for bariatric surgery online. Between April 2014 and June 2014, for example, the wait time for bariatric surgery once a surgeon had approved it was 132 days, which is within the general surgery target of 182 days. These wait times published online are measured using Ontario's standard definition of wait times: from the decision to treat to surgery date. The time from the initial physician's referral to booking the surgery is not included in the wait times published online but is tracked on a monthly basis by bariatric surgical sites.

Regarding the oversight of surgical outcomes, the Ontario Bariatric Network hired a Clinical Lead in March 2013 to monitor bariatric surgical centres, improve sharing of best practices and provide input on quality of care, wait times and process improvements. The Ministry has been working with the Ontario Bariatric Network to monitor the bariatric assessment and surgical centres, and to make funding adjustments when necessary. Surgical outcomes are also monitored through the Bariatric Registry, and each bariatric surgical centre is provided with a "scorecard" that shows its outcomes compared to other centres. With respect to the accreditation process in Ontario, the Ministry indicated that most aspects of the Ontario bariatric program are modelled on the standards set by the accreditation bodies in the United States, so whether bariatric surgical centres in Ontario obtain the U.S. accreditation remains voluntary.

Chapter 4

Ministry of the Environment and Climate Change

Section 4.04 Drive Clean Program

Follow-up to VFM Section 3.04, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2		1	1	
Recommendation 2	3	1	1	1	
Recommendation 3	3		2	1	
Recommendation 4	2	1			1
Recommendation 5	2		2		
Recommendation 6	1		1		
Total	**13**	**2**	**7**	**3**	**1**
%	**100**	**15**	**54**	**23**	**8**

Background

The Ministry of the Environment (Ministry) introduced the mandatory Drive Clean vehicle emissions program in 1999 as part of its strategy to reduce smog in Ontario. The program identifies vehicles whose emission controls are malfunctioning, and it requires that the owners of such vehicles have them repaired.

The program currently tests vehicles once they are seven years old, or those older than one year if ownership is to be transferred. Light-duty vehicles that were built before 1988 are exempt from the program because they were not required to be built with emissions-reduction controls. Otherwise, all vehicles must pass an emissions test for the owner to renew the registration or transfer ownership. Some owners whose vehicles fail the emissions test can get a conditional pass, which allows them to renew their vehicle registration but not to transfer ownership. This can occur when the cost to repair a vehicle so that it will pass an emissions test is expected to be more than $450. The Ministry implemented this $450 repair cost limit to alleviate some of the vehicle owner's financial burden—getting the conditional pass means the owner does not have to have the vehicle repaired.

Emissions tests and/or repairs are performed at approximately 1,700 Drive Clean facilities, which are private auto shops accredited by the Ministry. All testing facilities are electronically linked to the Ministry's Drive Clean database, which maintains a record of all tests and any related repairs made.

The methods used to test emissions depend primarily on the type of vehicle and how it is powered:

- Light-duty gasoline-powered vehicles are tested using the on-board diagnostic (OBD) testing method. Vehicles built after 1997 have a built-in OBD system that continuously checks the condition and operation of key emissions-control components and emissions-related systems in a vehicle. A vehicle will fail an emissions test if the testing equipment detects that the OBD system has identified a problem. This testing method was adopted on January 1, 2013.
- Heavy-duty non-diesel vehicles and certain light-duty vehicles built in 1997 or earlier are tested by the two-speed idle method, which is less stringent than the OBD testing method.
- Heavy-duty diesel vehicles are tested using the opacity test method, where smoke density is measured by a smoke sensor.
- Light-duty diesel vehicles are inspected visually for emissions.

As of December 2013, approximately 8 million light-duty vehicles (7.6 million in 2011) and more than 250,000 heavy-duty vehicles (300,000 in 2011) were registered in Ontario. Similar to 2011, about 90% of these vehicles are registered in the geographic area covered by the program. In 2013, more than 2.3 million light-duty vehicles (2.5 million in 2011) and, similar to 2011, more than 100,000 heavy-duty vehicles received a Drive Clean test.

Vehicle owners pay a fee to the Drive Clean facility that conducts their emissions test. A portion of this fee is remitted to the Ministry as revenue. In the 2013/14 fiscal year, the Ministry collected $28 million in test revenue ($30 million in 2011/12) and spent approximately $19 million to deliver the Drive Clean program ($19 million in 2011/12), of which $9 million was paid to a private-sector service provider that administers the program on the Ministry's behalf ($12 million in 2011/12). The $19 million in program expenditures does not include indirect costs such as corporate overhead, pension and severance. On April 1, 2014, the Ministry reduced the test fee from $35 to $30 for light-duty vehicles in order to reduce the accumulated program surplus of $23 million by June 2020.

In our *2012 Annual Report*, we found that overall the Drive Clean program had effective procedures in place to ensure that vehicles were getting tested and that vehicles whose emissions exceed the province's limits were being identified for repair.

We found that on-road vehicle emissions declined significantly from 1998 to 2010 and were no longer among the major domestic contributors to smog in Ontario. (Half of Ontario's smog came from pollutants that originated in the United States.) As well, ministry emissions estimates showed that more than 75% of the reduction in vehicle emissions since the Drive Clean program's inception was actually due to factors other than the program, including tighter manufacturing standards on emissions-control technologies, federal requirements for cleaner fuel and the fact that older vehicles were being retired. The Ministry further estimated that, since 2007, the Drive Clean program was responsible for reducing the remaining smog-causing vehicles emissions by about 36% annually.

Some of the other significant issues we noted during our audit were as follows:

- Beginning January 1, 2013, the program was to begin using an on-board diagnostic (OBD) testing method, which can only test vehicles built after 1997. As a result, vehicles built from 1988 to 1997, which experienced a failure rate of 11% to 31% in 2010 when tested with a dynamometer, will be tested using only the two-speed idle method, which uses less stringent emissions limits than either the dynamometer or the OBD testing methods.

As a result, the initial pass rate for these older vehicles will likely improve, even though there will be no real improvement in emissions performance, and fewer of these older vehicles that require repairs will be identified.

- Because vehicle owners are not required to incur any repair costs if the repair estimate exceeds $450, about 18,000 vehicles were not fully repaired in 2011. As a result, these vehicles can continue to be driven even though their emissions exceed Ministry-prescribed limits. The average repair bill paid by owners of vehicles that received a conditional pass was only $255. The most commonly diagnosed cause of excessive emissions in 2010—a faulty catalytic converter—was repaired in only one-third of cases. For vehicles that had only partial repairs in 2011, the emission readings after the repair were actually worse for all pollutants in 25% of the vehicles, and worse for at least one of the pollutants in half of the vehicles. Without full repairs, a vehicle's emission control system will continue to malfunction, and emissions will fluctuate.
- The Ministry outsources six program services, including the monitoring of Drive Clean facilities for non-compliant or fraudulent activities, to the private sector. At the time of our 2012 audit, it had consolidated the six separate private-sector service delivery contracts into one contract and expected a 40% reduction in annual costs. Under the previous contract, the Ministry had been diligent in requiring its service provider to conduct upwards of 1,400 covert audits a year. These and other audit efforts identified about 3,000 non-compliance issues annually. However, prior to the planned introduction of a new compliance program in 2013, the Ministry reduced the number of covert audits in 2012 to a fraction of what it previously required the service provider to conduct. Given that covert audits have a deterrent effect on Drive Clean facilities, a decrease in the number of covert audits increases the risk of non-compliant or fraudulent activities.
- Although one of the program's stated goals is to maintain a high level of public acceptance, the Ministry had not established performance targets or attempted to measure whether or not this goal had been achieved in more than a decade. The only survey to measure public support for the Drive Clean program had been done 12 years ago. As a result, public support for the program is unknown.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address them.

Status of Actions Taken on Recommendations

The Ministry provided us with information in the spring and summer of 2014 on the current status of our recommendations. According to this information, the Ministry has fully implemented two of the actions recommended in our *2012 Annual Report* and made some progress in implementing many of the others. For example, the Ministry has developed a risk-based compliance strategy and annual compliance plan to target vulnerable areas in the program to improve program integrity. However, a few recommended actions are requiring more time to be fully addressed. For example, the Ministry has not yet completed a formal evaluation of the program's effectiveness in reducing smog relative to the cost and impact of other initiatives that have been put in place to reduce smog and improve overall air quality.

The status of the actions taken on each recommendation is described in the following sections.

Program Effectiveness

Recommendation 1

To ensure that policy-makers are provided with current and relevant information, the Ministry of the Environment should formally evaluate the extent to which the Drive Clean program continues to be an effective initiative in reducing smog relative to the cost and impact of any other initiatives for reducing smog and improving overall air quality.

Status: In the process of being implemented.

In addition, the Ministry should periodically evaluate its progress against all stated program goals and report the results of its assessments publicly on a timely basis.

Status: Little or no progress.

Details

Our *2012 Annual Report* noted that the Drive Clean program had reduced smog-causing emissions from light-duty vehicles by 335,000 tonnes from inception to 2010, but this represented less than 25% of the total reduction in light-duty vehicle emissions. More than 75% of the reduction was actually due to factors other than the Drive Clean program, such as tighter manufacturing standards on emission-control technologies, federal requirements for cleaner fuels and ongoing retirement of old vehicles. During this follow-up, we updated our analysis in this area by including Ministry-estimated emissions data for light-duty vehicles tested in 2011 and 2012 and noted that the total reduction in light-duty vehicle emissions attributable to the Drive Clean program increased to almost 400,000 tonnes since program inception. However, as a proportion of total vehicle emissions reductions, it accounted for less than 20%; more than 80% of the total emissions reductions for light-duty vehicles from program inception to 2012 can be attributed to factors other than the Drive Clean program. In 2012, the Drive Clean program helped reduce smog-causing emissions not otherwise eliminated by other factors, by 35%, a figure comparable to each of the five preceding years.

The Ministry informed us that it had started some work to compare the cost-effectiveness of the Drive Clean program with other smog-reducing initiatives. Specifically, in April 2014, the Ministry engaged a third-party consultant to determine the total reduction in nitrogen oxide emissions and volatile organic compound emissions from the iron and steel industry, the cement industry, the petroleum refining industry, and the pulp and paper industry; and the cost per tonne of these reduced emissions. The consultant was also to gather the same information for the reductions of these emissions from light-duty vehicles that can be attributed to the Drive Clean program. The Ministry plans to compare the cost per tonne of reductions among the different Ontario initiatives responsible for the reductions from the different emitters. This comparison is intended to help determine which initiative has greater impact and is more cost-effective. This work was expected to be completed in late fall 2014.

As stated in our *2012 Annual Report*, the Drive Clean program has four key goals—reducing vehicle-related emissions of smog-causing pollutants; attaining a high degree of public acceptance; achieving revenue neutrality over the program's lifespan, with full-cost recovery via test fees; and maintaining business integrity (that is, zero tolerance for fraud). At the time of our follow-up, we found that the Ministry still had not established quantifiable targets and performance measures for all four of its key goals. Furthermore, although some efforts were made to monitor aspects of these goals, other than the estimated emissions reductions, the Ministry had not publicly reported the results of any assessments.

In our *2012 Annual Report* we reported that the Ministry was not publicly reporting information on a timely basis. For instance, summary reports on Drive Clean emissions reductions for vehicles tested in 2009 and 2010 were publicly released in 2012. In August 2014, the Ministry released summary versions of the Drive Clean emissions-reduction reports prepared by consultants, for the vehicles tested in 2011 and 2012. Moreover, we noted that there has been less public reporting since our 2012 audit. For example, the Ministry was no longer disclosing on its website a list of individuals and Drive Clean facilities that had been convicted of fraud-related offences, or a list of Drive Clean facilities that had been suspended or terminated in the last three years.

Vehicles Subject To Testing

Recommendation 2

To help assess the appropriateness of vehicles exempted from testing and the geographical area covered by the Drive Clean program, the Ministry of the Environment should:

- *review initial pass/fail rates and evaluate estimated vehicle emissions by model year;*
  Status: Little or no progress.
- *formally analyze the impact of excluding all light-duty vehicles except those in the 10 larger municipalities in the Windsor-Quebec City corridor; and*
  Status: Fully implemented
- *work with the Ministry of Transportation on a strategy for verifying the legitimacy of farmers' vehicle registrations.*
  Status: In the process of being implemented.

Details

The Ministry engages external consultants to calculate emission reductions and analyze Drive Clean test data results. In order to ensure that the Drive Clean program detects those vehicles most likely to pollute the most, it would be prudent for the Drive Clean program to analyze pass/fail rates and emission reductions by model year. We reviewed the consultants' reports on estimated emission reductions produced since our last audit, which were for vehicles tested in 2011 and 2012, and noted that, similar to our audit findings in 2012:

- an analysis of pass/fail rates by model year was performed for light-duty vehicles, but not for heavy-duty vehicles; and
- an analysis of emissions reductions by model year had not been performed for either light-duty or heavy-duty vehicles.

The Ministry informed us that, instead, it was assessing the performance of vehicles under seven years old that are tested for resale, to inform future program design. The Ministry expected to complete this analysis by fall 2014. In addition, the Ministry completed a review of pre-1988 light-duty vehicles, which are exempt from Drive Clean testing because, at the time they were manufactured, they were not required to have catalytic converters or other pollution emission-control equipment. Based on this review, pre-1988 light-duty vehicles represented 1.7% of the vehicle population in Ontario and accounted for 9% of total emissions in the program area in 2012. According to ministry calculations, emissions released from these vehicles will decrease as the vehicle population decreases – by 2020, the Ministry expects pre-1988 light-duty vehicles to represent less than 1% of the vehicles registered in Ontario.

In our *2012 Annual Report*, we reported that although the program's geographic boundary contained more than 30 municipalities, 10 of these—or one-third—accounted for two-thirds of the province's passenger vehicles and population. In addition, we reported that the Ministry had never formally assessed whether excluding those vehicles not located in these 10 municipalities from the required biennial testing could be done with little or no adverse effect on the environment. In July 2014, the Ministry completed an analysis of the appropriateness of the program's geographic boundary. The Ministry calculated that if the program boundary for light-duty vehicles was limited to only the 10 largest municipalities in the Windsor-Quebec corridor, emissions reductions for 2012 would be 27% less (22,100 tonnes versus 30,300 tonnes).

Vehicles registered to farmers are exempt from Drive Clean emission testing. To this end, in our

2012 Annual Report, we noted that vehicle owners, who were identifying themselves as farmers at the time of vehicle registration or re-registration, were not required to show proof that they were indeed farmers. We recommended that a strategy be developed for verifying the legitimacy of farmers' vehicle registrations, a recommendation that was reiterated in our 2013 audit of ServiceOntario. At the time of our follow-up, the Ministry of Transportation (MTO) was working with the Ministry of Agriculture and Food, and the Ministry of Rural Affairs to require applicants to provide proof they had a farming business in order to be eligible for farm plate registration. In this regard, MTO is proposing that applicants for new farm plates be required to provide one of the following four pieces of documentation to demonstrate they have a farm business: a farm organization membership card; a gross farm income exemption certificate; an exemption letter from the Agriculture, Food and Rural Affairs Appeal Tribunal; or a letter from Agricorp. Individuals who currently own farm plates would not be required to show proof at the time of licence plate renewal. MTO stated it would monitor farm plate requests and determine if further action was required. In April 2014, the ministries mentioned above consulted with accredited farm organizations, including the Ontario Federation of Agriculture, the Christian Farmers Federation of Ontario and the National Farmers Union-Ontario, to review and seek input on MTO's proposed option. MTO informed us that it expected to implement the new requirements for farm plate registration by January 2015.

Conditional Pass

Recommendation 3

To help ensure that polluting vehicles are repaired once emission problems are identified, the Ministry of the Environment should consider:

- *increasing or eliminating the repair cost limit;*
  Status: In the process of being implemented.
- *requiring vehicles that receive a conditional pass to be retested annually rather than biennially; and*
  Status: Little or no progress.
- *limiting the number of conditional passes allowed over a vehicle's lifetime.*
  Status: In the process of being implemented.

Details

In January 2014, the Ministry completed a jurisdictional scan comparing Ontario with other North American jurisdictions on some aspects of the program. The scope of the scan included a review of practices surrounding repair cost limits and the number of conditional passes allowed over a vehicle's life, but not the frequency of testing required for a vehicle that received a conditional pass or waiver. Through the jurisdictional scan, the Ministry found that more than half of the other North American jurisdictions with vehicle emissions testing programs were stricter than Ontario, in that they either had a higher repair cost limit or no repair cost limit, and, therefore did not issue conditional passes. The Ministry further noted that, unlike Ontario, six North American jurisdictions allowed only one conditional pass to be issued over a vehicle's lifetime. We noted similar comparison results during our 2012 audit.

The Ministry informed us that it would continue its analysis on the repair cost limit and conditional passes using the 2013 Drive Clean test data. It expected to complete the review by December 2014.

Emissions Test Methods

Recommendation 4

To optimize the benefits of the new on-board diagnostic testing technology, the Ministry of the Environment should ensure that appropriate technical testing is completed and problems are resolved before rolling it out to all Drive Clean testing facilities in January 2013.

Status: Fully Implemented.

The Ministry should also monitor the potential impact of using the less reliable two-speed idle method for testing vehicles older than model-year 1998 once the new on-board testing technology has been introduced.
Status: Due to the attrition of vehicles built before 1998, this recommendation is no longer relevant and will not be implemented.

Details

In our *2012 Annual Report*, we reported problems with the new testing equipment that was to be rolled out in January 2013. These problems included connectivity issues with remote dial-up when the Drive Clean facility uploaded photographs, the ability of the facility to erroneously change vehicle fuel type, and the ability to enter unreasonable odometer readings.

During our follow-up, we noted that, although the Ministry had corrected two of these problems before the new testing units were rolled out, and had resolved the third problem by September 2013, several issues remained. In 2012, the Ministry piloted the on-board diagnostic (OBD) equipment and testing procedures at more than 20 Drive Clean facilities, in order to identify and resolve problems prior to full implementation of the OBD testing technology. Tracking logs, provided to us by the Ministry at the time of our follow-up, indicated that all issues identified at the pilot sites had been resolved. (We noted also that, although 50 defects identified across all Drive Clean systems prior to 2013 were unresolved, they were classified as low priority, and software releases were in progress to address most of them.)

The Ministry informed us that it would continue to monitor test equipment performance and make improvements as required.

In our *2012 Annual Report*, we noted that light-duty vehicles manufactured between 1988 and 1997 could not be tested with the new OBD testing method because they were built without OBD technology and would not be tested with the previous testing technology (i.e., a dynamometer) because dynamometers were being phased out from Drive Clean testing facilities. Starting in 2013, such vehicles would be tested with the two-speed idle method, which has less stringent emissions limits than the dynamometer and in turn would likely result in the identification of fewer of these older vehicles that require repairs.

We noted that, subsequent to the introduction of the on-board testing technology, the Ministry had not monitored the potential impact of using the less reliable two-speed idle method for testing vehicles older than model year 1998, which would include monitoring the change in the initial pass/fail rates and the effect on the levels of emissions from these vehicles. Instead, the Ministry was monitoring the rate at which these vehicles are being retired. The Ministry estimated that in 2014 only 4% of registered vehicles were built between 1988 and 1997, and by 2017 this percentage is expected to drop to half of that. The Ministry informed us that the two-speed idle test is a cost-effective solution for an ever-decreasing proportion of older vehicles.

Furthermore, the Ministry states that maintaining the dynamometer equipment would be cost-prohibitive and uneconomical for many Drive Clean facilities because it would require dedicated dynamometer bays, and because old equipment needed significant maintenance.

In our view, the Ministry's rationale for not implementing the second part of Recommendation 4 is reasonable.

Monitoring Program Delivery

Recommendation 5

To maintain the integrity of the Drive Clean program, the Ministry of the Environment should:

- *use compliance rates to periodically evaluate the appropriateness of the mix of audit compliance tools, especially given the planned substantial decrease in covert audit activities; and*
  Status: In the process of being implemented.
- *maintain complete data for all non-compliance items identified and their related penalties, and*

ensure that the penalties applied are appropriate, consistent and timely.

Status: In the process of being implemented.

Details

In response to our recommendations to maintain the program's integrity, the Ministry has developed a Drive Clean Compliance Strategy and an Annual Compliance Plan.

The Drive Clean Compliance Strategy was released in February 2014 to deter and detect non-compliance of Drive Clean facilities (testing facilities) with standard operating procedures. The strategy outlines the various compliance activities that can be used to find non-compliance; how each compliance activity results in a pass/fail score for the testing facility; the various remedies available to solve and deter non-compliance; a decision-making tool to help select the appropriate remedy for a non-compliance matter; and a risk ranking matrix.

The Drive Clean Annual Compliance Plan for fiscal 2014/15 was released in March 2014. This plan sets out annual targets and deliverables for various compliance enforcement activities and provides a list of improvement projects under way. The targeted number of audits to be conducted on testing facilities by the Drive Clean service provider in the 2014/15 fiscal year includes more than 3,100 telephone audits, more than 1,500 overt audits, and 25 covert audits. The first two are unconcealed audits where compliance staff identify themselves to the staff of testing facilities, and the third consists of concealed audits where the compliance staff pose as customers. The 2014/15 plan also includes 3,000 roadside inspections to be performed by the Vehicle Emissions Enforcement Unit at the Ministry of the Environment.

The 2014/15 Annual Compliance plan also lists improvement projects that include the creation of a database to track facility compliance history and the creation of an annual compliance report. The database is intended to track, for each Drive Clean facility, the percentage of non-compliance found in each type of audit (i.e., telephone, overt and covert audits); the nature and frequency of non-compliance; and any penalties assessed. The annual report on compliance is expected to reflect the statistical goals and targets for the various compliance tools and the progress made on implementing continuous improvement projects.

Contract Management

Recommendation 6

To help ensure that the private-sector service provider meets contractual obligations in delivering the Drive Clean program, the Ministry of the Environment should adequately monitor the delivery of all services, including periodically verifying reported service levels achieved.

Status: In the process of being implemented.

Details

The private-sector service provider's performance is measured against 36 service level targets, of which four are conditional on events that have not yet occurred. Under the terms of the contract, the Ministry can withhold payments as penalty when service levels are not met. During our follow-up, we noted that the Ministry was manually tracking only 22 of 32 service levels, and was relying on the service provider to monitor compliance with the remaining 10. To aid in the consistent evaluation of service levels, the Ministry has developed standard operating procedures for service level validation. Inconsistency in evaluation between the Ministry and the service provider was noted for only one service level in 2013.

The Ministry informed us that it was collecting information to develop a web-based tracking application to continuously monitor all service levels and apply penalties where appropriate. The Ministry expected to have this completed in October 2014.

Chapter 4

Ministry of Education

Section
4.05 Education of Aboriginal Students

Follow-up to VFM Section 3.05, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	**Status of Actions Recommended**			
		Fully Implemented	**In Process of Being Implemented**	**Little or No Progress**	**Will Not Be Implemented**
Recommendation 1	2		2		
Recommendation 2	3		3		
Recommendation 3	2		2		
Recommendation 4	3	1	2		
Recommendation 5	4		4		
Total	**14**	**1**	**13**	**0**	**0**
%	**100**	**7**	**93**	**0**	**0**

Background

According to Statistics Canada (2011), there are about 300,000 Aboriginal people living in Ontario, including 201,000 First Nation people, 86,000 Métis and over 2,000 Inuit. The most recent detailed Statistics Canada data from the 2006 census indicated that only 62% of Aboriginal adults in Ontario had graduated from high school, compared to 78% of the general population—a gap of 16%. This academic achievement gap is up to 50% for young adults aged 20 to 24. In this age group, only 39% of the First Nations people living on reserves had graduated from high school.

Many Aboriginal students face challenges that affect their academic achievement, including poverty, substandard housing and poor nutrition. Many live in areas with little prospect of employment, a circumstance that can affect how seriously they take their formal education.

In 2006, the Ministry of Education (Ministry) identified Aboriginal education as a priority, with a focus on closing the gap in academic achievement between Aboriginal and non-Aboriginal students by 2016. It created the Aboriginal Education Office (AEO), which collaborates with Aboriginal communities and organizations, school boards, other ministries and the federal government, to co-ordinate Aboriginal education initiatives. Since 2006, the

Ministry has provided $279.5 million ($170 million in 2012) in funding to support programs for Aboriginal students.

In 2007, the Ministry designed a policy framework to identify Aboriginal students, help develop support programs and periodically assess their academic progress. The Ministry considered the framework to be the foundation for delivering quality education to all Aboriginal students who attend provincially funded elementary and secondary schools. However, in 2012, we concluded that the Ministry needed to more actively oversee the implementation of this framework to demonstrate what, if any, progress has been made since 2006 in improving achievement among Aboriginal students.

Among our more significant observations were the following:

- Five years after the release of the *Ontario First Nation, Métis and Inuit Education Policy Framework* (Framework), the Ministry had not assessed its progress against any of the 10 performance measures included in the Framework because it had not required school boards to evaluate and report on the measures. None of the three boards we visited (Algoma District School Board in Sault Ste. Marie, Kawartha Pine Ridge District School Board in Peterborough, and Lakehead District School Board in Thunder Bay) had done so.
- The Ministry has a guide to help school boards develop policies for students to formally identify themselves as Aboriginal. However, at the time of our audit, fewer than half of the estimated number of Aboriginal students in Ontario had been identified. The Ministry and boards need to identify Aboriginal students to better target funding and support, and determine their academic progress.
- The Ministry had not established a baseline from which to measure the gap in achievement between Aboriginal and non-Aboriginal students. Accumulation of credits toward graduation is a primary indicator of student success. We asked the Ministry for the most recent data for grade 10 credit accumulation for students who identified themselves as Aboriginal. Only 45% of these students were on track to graduate from high school, compared to 74% of the general grade 10 population. This raises the question of the Ministry's ability to meet its goal of closing the achievement gap by 2016.
- Although education on reserves is the financial responsibility of the federal government, many of these students eventually transition into the provincial system. Partly because of limited per-student funding, on-reserve schools have generally not been able to provide the quality of education found in provincial schools, and studies suggest these students may be several grade levels behind when they transfer into the public system. Our analysis of Education Quality and Accountability Office (EQAO) data found that only half of on-reserve students attending provincial schools passed the Grade 10 Ontario Secondary School Literacy Test in the 2010/11 school year.

We made a number of recommendations for improvement and received commitments from the Ministry and school boards that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

Both the Ministry and school boards have made some progress in implementing all of the recommendations in our *2012 Annual Report*. For example, as of October 2013, over 33,000 students had self-identified as Aboriginal (compared to 23,000 in May 2012—a 44% increase), which allowed the progress of more Aboriginal students to be tracked. As well, in August 2013 the Ministry released *A Solid Foundation*, the second progress report on the Framework, which provides a foundation or benchmark upon which to measure future achievements. With efforts to collect the necessary data well underway, the Ministry plans to measure its progress in a third progress report, which it intends to release in 2016. All three boards we visited, however, had begun implementing a number of promising initiatives to improve Aboriginal student achievement and were already measuring performance using EQAO test results of students who identified themselves as Aboriginal. The results achieved range from little change to significant improvement.

In March 2014, the Ministry released an implementation plan that was first proposed in 2007 to guide its activities and assist school boards in meeting the broad objectives of the Framework. The Ministry noted that the plan was developed in collaboration with its Aboriginal partners, district school boards and other key education stakeholders. We noted that, although more comprehensive strategies were developed for internal use, the Ministry's plan needs to be more detailed, as it reiterates much of the general direction proposed in the Framework and has not clearly identified the obstacles faced by Aboriginal students or outlined specific activities to overcome various obstacles. However, we found that all three of the school boards that we visited in 2012 had incorporated into their planning documents specific activities that address some of the key obstacles faced by Aboriginal students.

The status of actions taken on each of our recommendations is described in the following sections.

Policy Goals, Implementation Plans and Performance Measures

Recommendation 1

To help Aboriginal students succeed in school and reduce the gap in student achievement as outlined in the Ontario First Nation, Métis and Inuit Education Policy Framework *(Framework), the Ministry of Education (Ministry) and school boards should:*

- *develop specific implementation plans that identify and address the key obstacles faced by Aboriginal students and routinely review and update these plans to assess what progress is being made; and*
  Status: In the process of being implemented.
- *include in these plans specific goals and performance measures as outlined in the Framework and objectively measure and report aggregate results to determine whether any progress is being made toward improving Aboriginal student outcomes.*
  Status: In the process of being implemented.

Details

On March 5, 2014, the Ministry released the *Ontario First Nation, Métis and Inuit Education Policy Framework Implementation Plan* (Plan). The 2007 Framework recognized the need for the Ministry to develop such an implementation plan to guide its activities and assist school boards in meeting the broad objectives of the Framework. In our *2012 Annual Report*, we recommended that such a plan identify the key obstacles faced by Aboriginal students and outline specific activities to overcome various obstacles.

The purpose of the Plan, as outlined in the document itself, is to identify strategies and actions to support ministry and school board implementation of the Framework through to 2016. The Plan outlines in general terms what the Ministry intends to do by then to close the gap in academic achievement between Aboriginal and non-Aboriginal students. The Plan also sets out, again in general terms, what the Ministry expects school boards to accomplish. The Ministry intends to review and update the Plan while it is under way and to adapt it in its second and third years of implementation based on the experience of year one. However, we noted that the Plan needs to be more detailed if it is going to guide ministry activities and assist school boards in meeting the broad objectives of the Framework. The plan reiterates much of the general direction proposed in the Framework and has not yet clearly identified the obstacles faced by Aboriginal students or outlined specific activities to overcome various obstacles.

We found that all three school boards incorporated Aboriginal student issues into their various planning documents (including strategic plans, operational plans, improvement plans for student achievement and work plans). These plans outlined specific activities that address some of the key obstacles faced by Aboriginal students. One board focused on equity, inclusivity and diversity, and provided extensive training and professional development for students, teachers, support staff and administrators in these areas. One of its activities provided a basic understanding of the impacts of historical trauma on the community. This board also encouraged Aboriginal students to return to school, offering alternative programs and intervening halfway through the semester to ensure that these students have a program that meets their needs. Another board's improvement plans outlined several specific strategies and actions such as incorporating the local treaty into its native studies course, developing activities for First Nation students transitioning into the public system from reserve schools, and making announcements in the local native language. The third board included in its plans the key risks and obstacles faced by Aboriginal students, and a set of specific goals. For example, it dedicated a work study teacher to focus on helping Aboriginal students who achieve at a level 2 on EQAO tests to improve to level 3, the provincial standard. This board also planned to identify Aboriginal students who are struggling in literacy and provide specific support to help improve their success on the Ontario Secondary School Literacy Test (OSSLT).

In August 2013, the Ministry released *A Solid Foundation: Second Progress Report on the Implementation of the Ontario First Nation, Métis and Inuit Education Policy Framework* (Progress Report). The report aligns with the Framework's guiding principles, as the Ministry intends to continue to use the 10 performance measures outlined in the Framework as the key indicators to track ministry, school board and school progress. In regard to the Framework's measures for Aboriginal student achievement, the Progress Report establishes a baseline to assess these students' future progress. For example, the EQAO grade 3 reading results showed a gap of 20% between Aboriginal and all other students, with provincial standard achievement rates of 47% and 67% respectively. Progress to date in student achievement was not included in the report, but working from this baseline, an assessment of progress over time is planned to be done in 2016 when the Ministry intends to release the third progress report. For other Framework goals the Ministry reported specific results. For example, there were 13,375 students enrolled in native studies courses compared to 1,097 in the 2006/07 school year, and 50 boards had established First Nation, Métis and Inuit advisory councils by 2012 compared to 30 boards in 2009.

One board has been collecting data since 2008 and reports First Nation, Métis and Inuit student achievement in its board improvement plan along with specific EQAO targets for 2014 and 2018. This board has demonstrated steady improvement at all grade levels in EQAO testing for Aboriginal students and has substantially closed the gap, in particular, at the grade 6 level in reading and writing. For example, in 2006/07 only 32% of this board's Aboriginal students achieved the provincial standard in grade 6 writing compared to non-Aboriginal students at 53%, a gap of 21%. In 2012/13, Aboriginal student achievement improved to 58% while non-Aboriginal students increased to 62%, a gap of only 4%. Another board reports in its improvement plan grade 9 credit accumulation, which is a key indicator for success in high school. Since 2009/10, this board has reported a significant improvement (from 55% to 78%) in the percentage of Aboriginal students with eight or more grade 9 credits. This board also uses grade 9 and 10 credit accumulation numbers to determine whether students are on track to graduate and to identify students who may need assistance. Since 2008, the third board has been measuring performance based on EQAO results as well as credit accumulation. At the grade 9 level and on the OSSLT, this board has achieved somewhat mixed results. However, since 2008, the board has achieved significant improvement in EQAO results at the grade 3 level and some improvement at the grade 6 level, with an overall increase in the percentage of students who have achieved the provincial standard of 13% and 6% respectively. The board has also surveyed elementary and high school students to identify specific concerns that may need to be addressed, including factors that may have an impact on academic achievement, asking about such matters as feelings of security in school, levels of depression and the student's sense of belonging.

Voluntary, Confidential Self-identification

Recommendation 2

To obtain the population data necessary to better develop specific support programs, report on results, and identify opportunities to improve Aboriginal student achievement, the Ministry of Education (Ministry) should:

- *develop standard communication tools and disseminate best practices to assist boards in successfully implementing an effective student self-identification process; and*
  Status: In the process of being implemented.
- *develop a policy guide for self-identification by Aboriginal teaching and non-teaching staff and oversee the effective implementation of this policy.*
  Status: In the process of being implemented.

Both the Ministry and school boards should exercise effective oversight to help ensure that the student self-identification policy is being successfully implemented in Ontario schools.

Status: In the process of being implemented.

Details

Ministry data shows that by October 2013, 33,000 students had self-identified as Aboriginal, compared to 23,000 in May 2012, a 44% increase. The Ministry indicated that it supports internal sharing and analysis of self-identification data to track achievement for self-identified Aboriginal students and to monitor and report on progress in closing the achievement gap between Aboriginal and non-Aboriginal students. In April 2014, ministry staff participated in training sessions in providing leadership to the boards in the use and analysis of Aboriginal student self-identification data to support increased student achievement.

The Ministry continues to provide school boards with funding to support the implementation of student self-identification policies. The funding priorities for the 2013/14 school year were to increase student self-identification data use, analysis and sharing; enhance professional development and increased community engagement activities and partnerships; and increase access to Aboriginal languages and native studies programming and associated professional development. The release of project funds will be dependent upon the successful completion by the boards and approval by the Ministry of both the interim and final reports. In addition, the Ministry indicated that it will support strategies to increase the number of students who choose to self-identify and will share promising practices in the analysis and utilization of the data.

The Ministry has begun preliminary discussions regarding the development of a provincial policy guideline for voluntary staff self-identification through the Minister's Advisory Council Working Group that includes Aboriginal partners and key education stakeholders including the Ontario Teachers' Federation, the Ontario Public School Board Association and the Council of Ontario Directors of Education. In addition, the Ministry is currently creating an inventory of school board staff self-identification policies to assess board progress in policy development and to identify best practices to help in the development of the provincial guideline. To compile the inventory of school board staff self-identification policies, an *Aboriginal Staff Self-Identification Collection Template* was created that will be used in the 2014/15 school year.

To support the development of board-specific strategies on implementing student self-identification, the Ministry has assembled an analytical profile for each of the 72 district school boards. Each board profile includes:

- the estimated Aboriginal student population as a percentage of the total board student population;
- the year-over-year head count of self-identified students from October 2009 (first submission) to June 2013; and
- board-level results for student achievement indicators including grade 9 credit accumulation and all EQAO testing (grade 3 and 6 reading, writing and mathematics; grade 9 academic and applied mathematics; the OSSLT).

The Ministry will use the analytical board profiles to help communicate specific strategies to support boards in strengthening their Aboriginal student self-identification activities, supporting engagement with local communities, and improving overall Aboriginal student achievement.

One board's self-identification policy has been in place since 2007. For the 2012/13 school year, updated information on self-identification was sent to all schools, posted on the board's website and provided to the local Aboriginal communities. Also, the self-identification policy along with a transition document supporting Aboriginal education and career success is included in a *Welcome to Kindergarten* package provided to Aboriginal parents and students. This board believes that Aboriginal staff can act as mentors, share their Aboriginal culture and help foster an environment where Aboriginal students can reach a high level of achievement. Therefore, since 2008 the board has been sending out a communication every September asking its employees to self-identify, and during orientation it informs its new employees of the policy and gives them the opportunity to self-identify.

Another board's self-identification numbers have steadily increased over time despite overall declining enrolment. It revised its voluntary self-identification policy in May 2012 and it puts out annual communications promoting self-identification. This board indicated that training will be provided for head secretaries at all elementary and secondary schools to help registering students understand the policy and to provide information about how to encourage self-identification through the registration process.

The third board has had a voluntary student self-identification policy since 2007, which it revised in June 2013. Self-identification is part of the student registration process and the annual student information verification process. This board provides a pamphlet to parents outlining the benefits of student self-identification. In June 2013, it approved a voluntary staff self-identification policy that is intended to provide the board with baseline data on the number of Aboriginal staff currently employed. It is also to be used to improve services to students and enable the board to develop role model and mentoring programs with staff who share the students' culture and could foster a better environment for student success.

Data Collection and Analysis

Recommendation 3

To help assess the progress being made toward achieving the goals and performance measures outlined in the Ontario First Nation, Métis and Inuit Education Policy Framework, *the Ministry of Education (Ministry) and school boards should:*

- *establish a baseline with respect to the goals and performance measures identified in the Framework and set measurable, realistic targets; and*

  Status: In the process of being implemented.

- *periodically review progress made with regard to closing the gap between Aboriginal and non-Aboriginal student achievement so that* *additional or alternative strategies can be implemented where necessary.*

Status: In the process of being implemented.

Details

As previously noted, in August 2013, the Ministry released *A Solid Foundation: Second Progress Report on the Implementation of the Ontario First Nation, Métis and Inuit Education Policy Framework*. This report includes Ontario's first baseline data on Aboriginal student achievement and uses student self-identification data for the 2011/12 school year. Using this data on student achievement, the Ministry anticipates convening discussions with Aboriginal partners and other education stakeholders in the 2014/15 school year to set measurable student achievement targets and then annually review the progress made toward improving student achievement and closing the achievement gap between Aboriginal and non-Aboriginal students.

The Ministry indicated that data is not yet available to track progress toward the goal of increasing the graduation rate of Aboriginal students. The Ministry intends to calculate a provincial five-year baseline graduation rate for self-identified Aboriginal students in 2016/17 (using the self-identified Aboriginal students who were in grade 9 in 2011/12) and monitor progress against this baseline in future years.

All three of the boards we visited in 2012 have been collecting various data on self-identified Aboriginal students for more than five years, and all three have achieved moderate to significant improvement in the performance of Aboriginal students on EQAO testing and other measures such as credit accumulation. All three boards have also set targets and have been measuring progress toward the achievement of these targets. The first board set specific targets for results on all EQAO tests to be achieved by 2018 and, given the improvements noted since 2008, the targets appear to be achievable. Also, the board's targets are identified in its 2013–14 board improvement plan, and in early 2014 this board entered into a memorandum of understanding with two local First Nation bands regarding the sharing of data such as attendance, report card marks, EQAO results and the number of suspensions and expulsions. The purpose of the memorandum is to work collaboratively with the community to help monitor student achievement. The second board's achievement demonstrates improvement over time, although the board noted that year-to-year comparisons should be made with caution because of the small number of students. The third board stated that it was working with the local university on researching a junior (grade 6) mathematics assessment to establish a baseline that can be used to help improve student results, since the board's Aboriginal students have seen significant improvement over the last five years in reading and writing but not mathematics.

With the release of baseline data for academic achievement in the second progress report, the Ministry intends to review student achievement annually using EQAO scores and develop new initiatives to close the academic achievement gap. The initiatives and alternative strategies that are being delivered in selected school boards in the 2013/14 school year include:

- funding to 38 boards for secondary school re-engagement programs to hire staff with the knowledge and expertise to re-engage Aboriginal students who have left school but are close to graduating;
- implementing 13 elementary Aboriginal summer learning programs across 27 boards;
- collaborating between educators and local community partners at 16 boards to determine Aboriginal student achievement and well-being needs; and
- providing 13 Aboriginal instructional coaches in low-performing secondary schools who are knowledgeable in instructional strategies and curriculum content appropriate to the learning styles and preferences of Aboriginal learners in grade 9 and 10 applied compulsory courses.

The Ministry indicated that these targeted student achievement activities implemented in the selected school boards in 2013/14 are being monitored through report-backs and will be evaluated at the conclusion of the school year.

In April 2013, the Ministry provided funding to support a gathering of Aboriginal education leads. This conference was a professional learning opportunity for ministry staff, 80 Aboriginal education leads and other personnel from 40 boards to share and discuss best practices, strategies and ideas related to advancing the *Ontario First Nation, Métis and Inuit Education Policy Framework*. Also, regional board planning sessions were held in fall 2013, with focused questions and guided discussion around the needs of Aboriginal learners in all school boards.

All three school boards, as previously noted, are generating data to periodically review progress made with regard to closing the gap between Aboriginal and non-Aboriginal students. These boards have also developed alternative strategies to improve Aboriginal student achievement. For example, in February 2014, one board committed to working with an indigenous education coalition on a research project to design collaborative strategies to enhance educational services for First Nation students. This partnership is intended to research promising practices to enhance student success through teacher training, resource development, community program development and data sharing. The second board established a 10-week program to increase appreciation of Aboriginal customs while helping students make positive choices, set goals and build support systems in their lives. The third board annually reviews student data for obvious trends. For example, in 2012/13, this board found that its Aboriginal students were having difficulty in history and geography courses so community members and resource staff incorporated a First Nations perspective into the curriculum for these subject areas.

Funding

Recommendation 4

To better ensure that funding is allocated based on the needs of Aboriginal students, the Ministry of Education (Ministry) should:

- *consider basing per-pupil funding on more current and reliable Aboriginal student enrolment data, as this could result in a more equitable funding allocation;*
  Status: In the process of being implemented.
- *where funding is allocated in response to board proposals, document the underlying rationale for the funding and communicate to boards the justification for accepting or rejecting their proposals; and*
  Status: Fully implemented.
- *implement report-back processes not only to demonstrate that funds are spent for the purposes intended but also to obtain information on the success of different types of support programs boards are undertaking.*
  Status: In the process of being implemented.

Details

Much of the supplemental funding the Ministry provides to boards for Aboriginal programming is given on a per-pupil basis, but the number of Aboriginal students per board is based on 2006 Statistics Canada census data. In the 2012/13 school year, the Ministry established an intra-ministry working group composed of staff from the Aboriginal Education Office and its own finance, accounting and statistics branches. This group examined the feasibility of updating the supplemental funding model based on available Aboriginal student self-identification data. The Ministry indicated that it will meet with school boards, Aboriginal partners and education stakeholders to assess the impact of updating the supplement in this way. In winter 2015 the Ministry will finalize its assessment of updating the per-pupil component of the supplemental funding for Aboriginal students.

The Ministry implemented an enhanced template for school boards to help support a more objective and needs-based approach to funding project proposals for 2013/14. This project proposal template requires boards to include:

- a detailed description of the project;
- linkage to at least one of the 10 Framework performance measures;
- evidence of alignment with the board's improvement plan for student achievement;
- expected project outputs and outcomes; and
- a description of how the project will be monitored and evaluated to meet the intended outcomes.

The Ministry also implemented an enhanced evaluation template to support the selection of Aboriginal projects and provide feedback to boards on the funding they received in 2013/14. The Ministry indicated that the enhanced project proposal template and the enhanced project evaluation template will be used to document justification for project selection and provide feedback to boards going forward. Also in 2013/14, the Ministry revised its board reporting template, which is to be used to report evidence-based data on the success of projects and the projects' overall impact on Aboriginal student achievement.

First Nation Students Living on Reserves

Recommendation 5

In order to improve educational outcomes for First Nation students living on reserves, the Ministry of Education (Ministry) and, where applicable, school boards, should:

- *develop standardized template tuition agreements and guidelines that can be used by all boards and periodically monitor whether valid tuition agreements are in place with all bands;*
  Status: In the process of being implemented.
- *take a more proactive role to encourage boards to share best practices to assist with the transition of students from on-reserve schools to the provincial education system;*
  Status: In the process of being implemented.
- *separately measure the effectiveness of initiatives implemented to address the unique challenges faced by on-reserve students attending provincially funded schools; and*
  Status: In the process of being implemented.
- *continue to participate in and more proactively engage in tripartite agreement discussions with the federal government and First Nation organizations.*
  Status: In the process of being implemented.

Details

The *Education Services (Tuition) Agreement Guide* (Guide) was created and released in 2013 by the Ministry of Education, the Chiefs of Ontario's First Nation Education Coordination Unit, Aboriginal Affairs and Northern Development Canada (AANDC), and the Ontario Public School Boards' Association. The purpose of the Guide is to provide reference materials to assist publicly funded school boards and First Nations in developing education services agreements. As each tuition agreement is unique, the Guide includes sample components of a tuition agreement that First Nation communities and school boards may wish to adopt. In fall 2013, sessions were held in five locations across Ontario to provide an opportunity for First Nation communities and district school boards to build stronger relationships, review the final text of the Guide and discuss best practices in developing successful education funding agreements. All three boards noted that they had attended one of these sessions. Two of the boards later developed standardized education services agreements, and the other board reviewed its current agreements and determined that they conform to the best practices outlined in the Guide. Two of the boards had signed agreements with all the First Nation bands in their region. The third board noted that it had signed agreements in place with 13 bands but was still negotiating with the remaining six bands.

In September 2012, the Ministry, in collaboration with the Chiefs of Ontario, launched an e-learning pilot project. This project will provide selected First Nation communities that deliver kindergarten to grade 12 programming with access, in their own schools, to the Ontario Education Resource Bank. This repository provides students and teachers with access to a variety of resources such as lesson plans, maps, articles and online courses from kindergarten to grade 12. Key elements of the pilot project include providing training, professional development and support to teachers in the First Nation school system. Its purpose is to better understand the requirements needed for the successful implementation of e-learning in First Nation schools province-wide.

In fall 2013, the Ministry invited First Nation educators to attend professional development sessions directed toward student achievement, which it offered across the province.

The Ministry has partnered with the Nishnawbe Aski Nation and Indian and Northern Affairs Canada to improve the success of First Nation students in provincial schools and help those transitioning from First Nation schools to the provincially funded system. Through this partnership, the Ministry supported three education forums where Nishnawbe Aski Nation educators and community representatives met with school board representatives to discuss best practices in developing and implementing transition programs. The partnership also created a student-parent communication guide that includes information for First Nation students transitioning from on-reserve schools. The Ministry is also supporting a research study to examine the effectiveness of counselling services for First Nation students and to make recommendations on student transitions to the provincially funded system. In addition, the Ministry stated that it has funded 81 projects that are intended to help Aboriginal students engage at school both academically and socially, with the students using the *Students as Researchers Tool Kit* to research topics that matter to them.

All three boards indicated that they have extensive transition programs in place. For example, one of the boards notes that it has implemented several initiatives, including summer programs for students in the primary grades; a welcome kit that is mailed to all on-reserve schools with information on attending publicly funded schools; a video that includes students who have made the transition letting their peers know what to expect; and travel funding for board staff to make presentations to Aboriginal communities.

The Ministry provides annual funding for school board projects. A number of these projects include an emphasis on supporting transition from on-reserve schools. By using the revised board reporting template previously noted, the Ministry expects to obtain evidence-based data on the effectiveness of these initiatives and plans to share the results with all boards to support student transitions.

Ontario is participating in three education partnership initiatives. Each of the three partnerships will include the Ministry, Aboriginal Affairs and Northern Development Canada (AANDC) and one of three major First Nation organizations: the Nishnawbe Aski Nation, Grand Council Treaty #3, and the Association of Iroquois and Allied Indians/Indigenous Education Coalition. The overall objective of the partnerships is to support First Nation student achievement in both First Nation schools and provincially funded schools through developing partnership arrangements, sharing expertise and services and co-ordinating learning initiatives. In 2013, a memorandum of understanding was signed by the Ministry, the AANDC and the Nishnawbe Aski Nation. The agreement intends to establish a forum for the three partners to work collaboratively to help prepare the Nishnawbe Aski Nation's students for the transition into the public system and provide the educational opportunities required for them to be successful.

Chapter 4

Ministry of Health and Long-Term Care

Section
4.06

Independent Health Facilities

Follow-up to VFM Section 3.06, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	**Status of Actions Recommended**			
	Actions Recommended	**Fully Implemented**	**In Process of Being Implemented**	**Little or No Progress**	**Will Not Be Implemented**
Recommendation 1	2		1	1	
Recommendation 2	4		3	1	
Recommendation 3	6		2	4	
Recommendation 4	1			1	
Recommendation 5	3		2	1	
Total	**16**	**0**	**8**	**8**	**0**
%	**0**	**0**	**50**	**50**	**0**

Background

In Ontario, about 800 independent health facilities provide primarily diagnostic services (such as x-rays, ultrasounds and sleep studies) and about 25 provide other services including surgery (such as cataract and plastic surgery) and dialysis. Independent health facilities provide these services at no charge to patients who are insured under the provincially funded Ontario Health Insurance Plan (OHIP). Patients generally need a requisition signed by their physician to receive the services, and test results are sent to this physician.

The facilities are independently owned and operated, and 98% of them are for-profit corporations. The Ministry of Health and Long-Term Care (Ministry), which is responsible for licensing, funding and co-ordinating quality assurance assessments of these facilities under the *Independent Health Facilities Act* (Act), estimates that about half of them are owned or controlled by physicians, many of whom are radiologists who interpret, for example, x-rays.

The Ministry pays facility owners a "facility fee" for overhead costs such as rent, staffing, supplies and equipment. In the 2013/14 fiscal year, the Ministry paid $434 million in facility fees ($408 million in the 2010/11 fiscal year). Total facility payments increased by about 2% per year from 2010/11 to 2013/14. As well, the Ministry pays physicians a standard "professional fee" for each service provided in the facilities. At the time of our 2012 audit, the Ministry could not determine the amount of professional fees billed for any services provided in independent health facilities. At our recent request, the Ministry determined that $198 million in professional fees were billed in 2013/14 for diagnostic services performed at independent health facilities. However, it was not able to determine the professional fees billed for surgery and dialysis performed at independent health facilities.

The objective of our 2012 audit of independent health facilities was to assess whether the Ministry had implemented systems and processes to determine whether independent health facilities were providing Ontarians with insured services in a timely and cost-effective manner, in accordance with legislated requirements. In this audit, we found that the Ministry had improved the oversight of independent health facilities since our last audit of independent health facilities in 2004. However, several areas of concern still remained. For example, the Ministry generally did not allow facilities to relocate to underserved areas, even though Ministry data indicated that patients in about half of Ontario municipalities continued to be underserved for certain diagnostic services, including radiology and ultrasound. As well, the Ministry had not researched the current overhead costs associated with providing the services. These costs may have changed significantly because of new technology that allows certain tests to be done much faster, which often results in lower overhead and staffing expenses.

Other significant observations from our 2012 audit included the following:

- Each facility is paid the same amount for each type of service available, regardless of the number of services it performs. Consequently, larger facilities in urban areas often benefit from economies of scale, since costs like rent and reception staff salaries do not increase proportionately with the number of services performed. Paying slightly higher fees in locations with smaller populations and lower fees in high-density locations might encourage services in underserved areas without additional cost to the Ministry. Such reimbursements could provide better patient access to services in locations with smaller populations.
- Although the Ministry estimates that about 50% of facilities are owned or controlled by physicians, it has not analyzed the patterns of physicians referring patients to their own or related persons' facilities. In our 2012 report, we noted evidence of overuse of diagnostic imaging tests, particularly when a physician self-refers for such tests. Further, many patients assume they must go to the facility on their physician's referral form, when in fact they can choose a hospital or any facility that offers the required service.
- In 2009, the Canadian Association of Radiologists noted that as many as 30% of CT scans and other imaging procedures across Canada contribute no useful information or are inappropriate. The Ministry's own estimate was that about 20% of facility-fee tests are likely inappropriate (for example, unnecessary tests based on the patient's condition, or tests that contribute no useful information). Such testing can be unsafe for patients and can unnecessarily increase health-care costs.
- Unlike hospitals, facilities are assessed by the College of Physicians and Surgeons of Ontario to help ensure that, among other things, diagnostic images are being correctly read by the facilities' physicians. However, as of March 2012, about 12% of facilities had not been assessed within the previous five years. Reasons for assessments not being done included a lack of specialized assessors and waiting for facilities to complete a planned move to a new location. Even for

assessed facilities, the College assessors did not review the work of all physicians working at those facilities.
- As of March 2012, the Ministry's X-ray Inspection Services Unit had not inspected almost 60% of facilities as frequently as required to ensure that radiation-producing equipment, including x-ray equipment, was appropriately shielded to prevent excessive radiation exposure.
- The Ministry estimated that certain services—such as MRIs, dialysis and colonoscopies—were about 20% to 40% less expensive if delivered in community clinics, including independent health facilities, rather than in hospitals. Ensuring both the timely availability of services and the reasonableness of facility fees is particularly important because the Ministry's 2012 Action Plan for Health Care indicated that a number of less complex medical procedures may be moved from hospitals into community clinics, such as independent health facilities.
- Although the Ministry has attempted to improve patient service by introducing two websites that list, among other things, certain locations where patients can obtain diagnostic services such as x-rays and ultrasounds, neither site lists all locations that offer these services. One of the websites, which lists all independent health facility locations and services, could be made more user-friendly:
  - if it had search capability (for example, by postal code or by service) to help patients locate facilities; and
  - if it included information on facility wait times for services that historically do not have same-day access (such as MRIs and CTs), to help patients who want their tests as soon as possible.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

The Ministry provided us with information in spring and summer 2014 on the status of implementing the recommendations we had made in our 2012 Annual Report. According to this information, the Ministry was in the process of implementing half of our recommendations. For example, the Ministry was implementing practices to review unusual billing patterns by independent health facilities and verify that independent health facilities were billing the Ministry only for services provided to patients.

However, little or no progress had been made on many of our other recommendations. For example, much more work is needed in the following areas:

- better identifying underserved areas of the province;
- reviewing the reasonableness of fees paid to independent health facilities by either assessing the actual cost or comparing it to costs in other jurisdictions; and
- standardizing referral forms to show patients all the locations they can go to for a test that has been ordered for them.

The Ministry indicated that these recommendations will take longer to implement due to various reasons, including the need for stakeholder consultations.

Further, more work is needed to improve the quality assurance process that the College of Physicians and Surgeons of Ontario (College) conducts for the Ministry. Until improvements are made, the Ministry has no assurance that significant concerns identified during the College's inspections of independent health facilities are being forwarded to it on a timely basis. As well, the Ministry still does not receive any information on the quality of care provided at clinics that are not independent health facilities under the Act, including certain x-ray clinics and some abortion clinics.

The status on each of our recommendations is as follows.

Access to Services

Recommendation 1

To help ensure that Ontarians have timely and convenient access to required tests and procedures, the Ministry of Health and Long-Term Care should:

- *better identify areas within the province where the combined levels of services offered by hospitals and independent health facilities indicate that the area is underserved (for example, by analyzing population and gender distribution within each area and determining the resulting needs for services); and*

  Status: Little or no progress.

- *develop ways to help address patient needs in regions identified as underserved, such as offering incentives to encourage facilities to provide services in underserved areas or reviewing policies that restrict a facility's ability to move into underserved areas.*

  Status: In the process of being implemented.

Details

The Ministry still does not analyse population and gender distribution to identify areas that are underserved; nor does it correlate the combined level of available services offered by hospitals and independent health facilities to the identified needs. The Ministry indicated that it was working with the Local Health Integration Networks (LHINs) to identify, by the end of 2015, areas that are underserved on this basis. In the interim, the Ministry continues to determine underserved areas based on the combined per capita billings of hospitals and independent health facilities, and intends to prepare by March 2015 a plan to address needs in these areas.

With respect to identifying underserved areas in the province, one LHIN had completed an analysis of the demand for cataract services that compared population demographics to the number of ophthalmologists, the age of the ophthalmologists and the number of procedures they performed. The Ministry indicated that the other 13 LHINs were undertaking similar analyses, to be completed by March 2015, regarding cataract services. However, aside from cataract services, the Ministry has made little progress in analyzing types of services and demographics to better identify underserved areas.

Although the Ministry has not developed any incentives to attract independent health facilities to the underserved areas it has identified, it did implement a new facility relocation policy in January 2014. The policy enables facilities in areas that are adequately served or overserved to move to underserved areas anywhere in Ontario, as long as any affected LHINs agree to the move.

Billings

Recommendation 2

To enhance the cost-effective management of the Independent Health Facilities Program, the Ministry of Health and Long-Term Care should:

- *periodically review the fee it pays to independent health facilities (to cover staffing, equipment and other overhead costs) by assessing the actual costs of the services and by making periodic comparisons to other jurisdictions;*

  Status: Little or no progress.

- *consider alternatives for better managing the volume of fees chargeable by facilities in overserved areas, such as requiring these facilities to obtain ministry approval before increasing capacity by buying more equipment;*

  Status: In the process of being implemented.

- *consider requiring facility owners to declare all potential conflicts of interest to the Ministry, and periodically review billing data to identify facilities with unusual billing patterns, including billings resulting from unexpectedly high levels of self-referrals of patients by physicians who own or work at that facility, or who are*

related to someone who owns the facility—and follow up with these facilities; and
Status: In the process of being implemented.

- *for selected services, periodically verify that facilities have billed the Ministry only for services provided to patients—for example, through matching facility billings to physician requisitions or to the associated physician's professional fees for the same service.*
  Status: In the process of being implemented.

Details

At the time of our follow-up, the Ministry had not reviewed the reasonableness of the fees that it pays to independent health facilities. In particular, the Ministry has not performed an assessment of the actual costs incurred by facilities for the services it pays them for. The Ministry indicated that no such analysis was done because its most recent negotiations with the Ontario Medical Association (which represents physicians) did not focus on the underlying costs to determine the fees payable to independent health facilities. The Ministry indicated that variations in overhead costs across different jurisdictions make comparisons among jurisdictions difficult. However, in the absence of any information on costs for services provided in Ontario, in our view an analysis of overhead, equipment and staffing costs in other jurisdictions would be beneficial. The Ministry has made some progress in developing a more reasonable basis for the facility fees that it pays for cataract services by determining the average direct hospital costs incurred in 2011/12 for such procedures. In this regard, the Ministry plans to negotiate an agreement with two independent health facilities by March 2015 to reduce the fees it currently pays to a rate more comparable to the costs incurred by hospitals. Currently, according to ministry information, these facilities are paid 15% and 65% more, respectively, than the average direct cost incurred by hospitals. The Ministry was also working with Cancer Care Ontario to determine a similar fee structure for community colonoscopy clinics.

The Ministry is taking steps to better manage the volume of fees charged by sleep clinics (one type of independent health facility) in overserved areas. The Ministry revised its expansion policy for these facilities in 2013, requiring them to obtain written approval from the Ministry before increasing capacity by purchasing new equipment. (When facilities increase capacity by adding equipment, they can provide more services to patients and thereby increase the volume of fees they charge the Ministry.) The Ministry noted that it is not approving any additional equipment for sleep clinic facilities unless the facility making the request is located in an underserved area. Sleep clinics represent less than 10% of all facilities. The Ministry indicated that it will be implementing a similar requirement for all other independent health facilities by March 2016. To determine the current quantity of equipment, in fall 2013, the Ministry requested inventories of radiation-producing equipment (mainly x-ray and CT equipment) from all health-care facilities, including hospitals and independent health facilities. The Ministry indicated that just over 70% of the facilities had responded by summer 2014. Further, between October 2012 and January 2014, the Ministry's Expert Panel on Appropriate Utilization of Diagnostic and Imaging Studies recommended practices to prevent certain types of diagnostic and imaging studies from being ordered unnecessarily or inappropriately, which, if implemented, should also assist the Ministry in better managing the volume of fees chargeable by facilities. However, the committee had not yet made any recommendations regarding reducing x-ray and ultrasound tests that are not medically necessary.

At the time of our follow-up, the Ministry had begun obtaining information on facility owners who are also physicians and who refer patients for tests at the facility. Such physician owners have a potential conflict of interest when referring patients for tests, because increasing the number of tests ordered also increases the income earned by the independent health facility. By March 2015, ownership information will be updated when a facility's licence is renewed (every five years), and whenever a facility changes ownership. However, the Ministry was still not obtaining information on other potential conflict-of-interest relationships (such as spouses, siblings and parents/adult children) between physicians who refer patients for tests at facilities and the owners of those facilities. Such information is needed in order to identify unusual billing patterns, including billings resulting from unexpectedly high levels of referrals from physicians who are related to someone who owns the facility.

Regarding the matching of facility billings with billings for physicians' professional fees (to ensure that facilities bill only for services that physicians have provided), the Ministry indicated that it cannot implement this recommendation yet because these two billing systems are still not linked. However, it was expecting to implement, in late fall 2014, a new claims review process to periodically verify that facilities are billing only for services provided to patients. Part of this process entails matching facility billings to physician requisitions for diagnostic tests for patients. The process will also include a review of whether the number of health-care services provided per day is reasonable, as well as any billing irregularities that have been identified in the past. Ministry staff are to follow up questionable claims identified through this process.

Performance Monitoring

Recommendation 3

To better ensure that independent health facilities are providing services according to quality medical standards established by the College of Physicians and Surgeons of Ontario (College) and are meeting other legislated requirements, the Ministry should:

- *work with the College to ensure that every facility is inspected at least once between each five-year licence renewal for that facility;*
  Status: In the process of being implemented.
- *consider including additional expectations in its Memorandum of Understanding with the College, such as:*
  - *requiring assessors to review the quality of each physician's work at the facility; and*
    Status: Little or no progress.
  - *requiring that assessment results for facilities with significant issues be more promptly reported to the Ministry after the assessment;*
    Status: Little or no progress.
- *consider, when next reviewing the* Independent Health Facilities Act, *adding penalties for facility owners who refuse access to the College's assessors when they arrive unannounced;*
  Status: Little or no progress.
- *develop policies and procedures to improve information-sharing between the Ministry's Independent Health Facilities Program and its X-ray Inspection Services Unit, including information on the location of facilities offering x-ray services as well as information on inspection results, so that each has the most current information available on the facilities they oversee; and*
  Status: In the process of being implemented.
- *consider options for streamlining the monitoring of facilities' activities, including determining whether the Ministry's X-ray Inspection Services Unit can rely on the work of other professional or federal oversight entities to enable it to focus its activities on the newer or higher-risk facilities.*
  Status: Little or no progress.

Details

At the time of our follow-up, the Ministry indicated that over 95% of operational independent health facilities had been assessed in the last five years. About 70 facilities were not assessed over this time period for various reasons: for example, the facility was inactive because it was about to move to a new location or change ownership.

At the time of our follow-up, there had been no related update to the Ministry's Memorandum of Understanding with the College of Physicians and Surgeons of Ontario (College). However, the Ministry expected to revise this Memorandum of Understanding by March 2015, and indicated that it would discuss possible changes to the assessment process with the College at that time. Changes to be discussed will include requiring assessors to review the quality of each physician's work at independent health facilities, as well as to report assessment results for facilities with significant issues more promptly to the College, which could then more promptly report these results to the Ministry.

The Ministry indicated that there had not yet been, and that the Ministry could not determine when there would next be, an opportunity to revise the *Independent Facilities Act*. However, when the Act is next revised, amendments under consideration would include penalties for owners who refuse to give College assessors access to the facility.

At the time of our follow-up, the Ministry had not developed any new policies to improve information-sharing between its Independent Health Facilities Program and its X-ray Inspection Services Unit. However, the Ministry indicated that in 2013, the Independent Health Facilities Program staff began emailing the X-ray Inspection Services Unit to advise them of facility relocations, expansions, licence transfers or removals of services. Further, the Ministry set up a committee, which met for the first time in June 2014, to improve communication between these two areas of the Ministry. As of August 2014, no timelines had been set for completing the committee's work or for implementing any recommended improvements.

Similar to the Ministry's response to our recommendation in 2012, the Ministry indicated that it had not yet determined whether it would consider options for streamlining the monitoring of independent health facilities, such as relying on professional or federal oversight entities. We encourage the Ministry to consider such options in order to better ensure that independent health facilities are monitored in an efficient manner, as well as to free up Ministry resources to more closely monitor newer or higher-risk facilities.

Community Health-Care Clinics Not Covered by the Act

Recommendation 4

To ensure that all community clinics providing insured services—even those that do not use anaesthesia—offer quality medical services, the Ministry of Health and Long-Term Care should consider engaging the College of Physicians and Surgeons to oversee those clinics that offer services that would be subject to College oversight if they were classified as independent health facilities.

Status: Little or no progress.

Details

Beginning in late fall 2014, the Ministry was expecting to start receiving the College's quality management reports on colonoscopy clinics that are not independent health facilities. However, the Ministry has no time frames for developing and implementing a quality management process for overseeing community clinics that are not independent health facilities and that offer mammography and pathology services. In March 2013, the Ministry asked the College and Cancer Care Ontario to jointly develop a quality management process for these community clinics. This process was to cover both the sites and the providers of these services. However, at the time of our follow-up, this process was still under development, and the Ministry had no timeframe for its expected completion. Further, the Ministry did not know whether it would receive copies of any reports resulting from the future quality management process.

As well, at the time of our follow-up, the Ministry had not taken any action to establish appropriate quality assurance processes for community x-ray clinics that are not independent health facilities. The Ministry planned to discuss the possibility of other quality review programs with the College by March 2015.

Public Information

Recommendation 5

To ensure that patients have access to relevant information about independent health facilities that can help them obtain required services, the Ministry of Health and Long-Term Care should:

- *consider the costs and benefits of introducing a standardized referral form, similar to that used in the laboratory program, that restricts physicians from recommending a preferred facility and that contains information about how to locate an independent health facility using the Ministry's website;*

  Status: Little or no progress.

- *combine existing website information into one website with search functionality that specifies all locations where patients can access community services, such as x-rays and ultrasounds, as well as available services and wait times for services that do not have same-day access (for example, MRIs and CT scans); and*

  Status: In the process of being implemented.

- *provide information on its website regarding how to register a complaint about an independent health facility.*

  Status: In the process of being implemented.

Details

In 2012, the Ministry obtained some information on other jurisdictions' use of standardized diagnostic referral forms (including those for x-rays and ultrasounds) so that the Ministry could evaluate the costs and benefits of their use. At the time of our follow-up, the Ministry was in the process of obtaining more comprehensive information from other jurisdictions to assist in its evaluation of standardized diagnostic referral forms. The Ministry was also working to introduce standardized referral criteria for some procedures to ensure that they were being requested only where appropriate. However, at the time of our follow-up, little action had been taken on introducing a standardized referral form that contains information about how to locate available places to complete the recommended tests, such as via the Ministry's website. Currently, physicians are not restricted from using forms that include the name of a specific preferred facility (for example, a facility owned by the referring physician or by someone related to the physician). The Ministry was planning to have asked independent health facility operators by March 2015 to revise their facility referral forms to indicate that patients can go to other facilities that can be located on the Ministry's website.

The Ministry expected existing website information on independent health facilities, including the locations of x-ray and ultrasound clinics, to be combined into its searchable Health Care Options directory (www.ontario.ca/healthcareoptions) by early 2015. With regard to procedures for which same-day service is not available, the Ministry indicated that it had recently begun collecting wait times from independent health facilities offering MRIs and CTs and was reviewing this information for accuracy, with plans to make it publicly available by March 2015.

In fall 2012, the Ministry added a link to its website for people who want to "register a concern regarding an IHF (independent health facility)." However, instead of leading to information on how to file a complaint about a facility, the link leads to a form, to be sent to the Ministry, requesting the patient's consent to the disclosure of personal health information. Although the form includes a phone number to reach someone at the Ministry, it does not explain the complaints process. Further, the number of complaints received by the Ministry about independent health facilities has actually decreased since this form was added to the Ministry's website. The Ministry was planning to have clarified the complaints process on its website by the end of 2014.

Chapter 4

Section

4.07

Ministry of Health and Long-Term Care

Long-term-care Home Placement Process

Follow-up to VFM Section 3.08, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3		3		
Recommendation 2	2		2		
Recommendation 3	3		3		
Recommendation 4	2			2	
Total	**10**	**0**	**8**	**2**	**0**
%	**100**	**0**	**80**	**20**	**0**

Background

Long-term-care homes (LTC homes) provide care, services and accommodation to people who need to have 24-hour nursing care available, supervision in a secure setting or frequent assistance with activities of daily living, such as dressing and bathing. LTC homes are sometimes referred to as nursing homes or homes for the aged. They may be for-profit, not-for-profit, or municipally run organizations, and often have waiting lists for their beds.

The *Long-Term Care Homes Act* (Act) authorizes the province's 14 Community Care Access Centres (CCACs) to determine eligibility for LTC home admission, prioritize eligible people on wait lists and arrange placement when a bed becomes available. Each CCAC reports to one of the province's 14 Local Health Integration Networks (LHINs). The Ministry of Health and Long-Term Care (Ministry), to which the LHINs are accountable, is responsible for ensuring that CCACs comply with the Act's LTC home placement provisions. In the 2013/14 fiscal year, CCACs placed more than 26,000 people (about the same number as in 2011/12), 85% of whom were 75 or older, in Ontario's about 630 LTC homes (about 640 in 2011/12). The more than 76,000 long-stay LTC beds in these homes (about the same number as in 2011/12) are over 97% occupied.

Since 2005, the number of Ontarians aged 75 and over has increased by more than 20%, which is undoubtedly one reason why the median amount of time people wait for an LTC home bed has tripled—from 36 days in the 2004/05 fiscal year to 108 days in 2013/14 (98 days in 2011/12). Ontario's population of those aged 75 and older is expected to grow by almost 30% from 2012 to 2021 and to further increase beginning in 2021 when the baby boomers start to turn 75, likely creating additional demand for long-term care. The Ministry has recognized that it is critical that alternatives to long-term care be developed given Ontario's aging population.

CCACs use a standardized process to determine client eligibility, including considering alternatives to long-term care. However, more needs to be done to ensure that crisis cases are prioritized consistently. Many factors that affect wait times for placement are out of the control of CCACs. For instance, the Ministry is responsible for how many LTC home beds are available. As well, people are allowed to select the LTC homes they are willing to be placed in, and LTC homes may reject applications.

The objective of our 2012 audit was to assess whether the processes in place at selected CCACs were effective for placing individuals in LTC homes in a consistent and timely manner, based on their needs and in accordance with ministry and legislative requirements. We conducted our audit work at three Community Care Access Centres of different sizes: Central East CCAC, responsible for 9,700 LTC home beds, with head office in Whitby; North East CCAC, responsible for 5,000 LTC home beds, with head office in Sudbury; and Waterloo Wellington CCAC, responsible for 4,000 LTC home beds, with head office in Kitchener.

In our *2012 Annual Report*, we noted that, overall, the three CCACs we visited were managing various areas of their LTC home placement process well, but all had areas that needed improvement. Our observations included the following:

- March 2012 LTC home wait-list data indicated that crisis clients, who were still on the wait list at that time, had been waiting a median of 94 days up to that point; moderate-needs clients had been waiting 10 to 14 months; and most other eligible clients had been waiting for years. During the 2011/12 fiscal year, 15% of all clients on the wait list died before receiving LTC home accommodation, indicating that many potential clients that could benefit from services are not receiving them in a timely fashion.
- Nineteen per cent of people waiting in hospital for an LTC home bed had applied to only one LTC home, even though the selected home may have a long wait list. This can result in negative consequences for both the individual's health and the health system as a whole, as it has been shown that remaining in hospital longer than is medically necessary is detrimental to a person's health, is more costly than community-based care alternatives and takes up beds that are needed by other patients.
- While 36% of clients were placed in their first choice of homes, others accepted an alternative LTC home but stayed on their preferred home's wait list. In March 2012, 40% of people on wait lists for a particular home resided in another home. Because crisis clients get priority, non-crisis clients may find it difficult to access the more popular homes.
- Applicants in some areas of the province get into LTC homes more quickly than others. At one CCAC, 90% of clients were placed within 317 days, whereas at another it took 1,100 days.
- Clients able to pay for private or semi-private rooms are generally placed more quickly because homes can have up to 60% of their beds in such rooms, but only 40% of people apply for them.
- The CCACs we visited did not periodically review whether the highest priority clients were offered the first available beds in their chosen homes.

We made a number of recommendations for improvements and received commitments from the Ministry and the CCACs that they would take action to address these recommendations.

Status of Actions Taken on Recommendations

The Ministry of Health and Long-Term Care (Ministry) and the three CCACs visited provided us with information in the spring and summer of 2014 on the status of the recommendations we had made in our *2012 Annual Report*. According to this information, none of the recommendations have been fully implemented, but some progress has been made in implementing most of the recommendations. For example, the CCACs' information system had been modified to provide better data on placement decisions. The CCACs were in the process of implementing independent reviews of placement decisions to ensure that the highest priority patients got the first available beds that matched their needs (for example, male versus female; basic, semi-private or private room). However, little progress has yet been made in two areas: developing consistent performance measures for monitoring the LTC home placement process, and developing target deadlines for completing each stage of the LTC home placement process in order to help reduce wait times.

The status of the actions taken by the Ministry and the CCACs is summarized following each recommendation.

Wait-list Management

Recommendation 1

To better ensure that higher-needs clients are identified and placed in long-term-care homes (LTC homes) as soon as possible, Community Care Access Centres (CCACs) should:

- *develop a consistent province-wide process for ranking clients within the crisis priority level;*
  Status: Fully implemented at the three CCACs visited and in the process of being implemented province-wide by all CCACs.
- *in consultation with the Ministry, consider conducting a periodic "touch-base" to determine whether wait-listed clients' condition or circumstances have changed and therefore require a reassessment of their needs, rather than conducting formal reassessments of all clients every six months as is currently required; and*
  Status: In the process of being implemented.
- *conduct periodic independent reviews of placement decisions to ensure that the highest-priority client matching the bed specifications (such as male versus female, and private versus semi-private and basic accommodation) is offered the first available LTC home bed.*
  Status: In the process of being implemented.

Details

In October 2013, the Ontario Association of Community Care Access Centres—a not-for-profit organization that represents and supports all CCACs across the province—and the 14 CCACs themselves approved a process to consistently rank clients within the crisis priority level. The three CCACs visited had adopted this ranking tool. All 14 CCACs were expected to have implemented a revised version of this tool by spring 2015.

In September 2013, the Ministry sent a letter to all CCACs, the Ontario Association of Community Care Access Centres, and all Local Health Integration Networks clarifying that, although a client assessment is required to be completed during the three months prior to admission into an LTC home (to ensure client placement decisions are based on up-to-date information) a formal reassessment of all clients waiting for an LTC home did not have to be completed every six months, as was previously done. At the time of our follow-up, all three of the CCACs visited were relying on automated prompts to identify clients nearing the top of the wait list to schedule reassessments within the three months before placement in a LTC home. However, no periodic "touch base" had been implemented to determine whether wait-listed clients' conditions or circumstances had changed and therefore required a reassessment of the clients' needs. Instead, the CCACs continued to perform additional assessments at least every six months for all home-care clients with chronic or more complex needs, including those waiting for an LTC home, to see if their needs had changed.

The information system used by all CCACs was updated in November 2013 to enable CCACs to review historic wait list data. As a result, CCACs can now access information needed to conduct periodic reviews of placement decisions. This will enable them to ensure that the highest priority client matching the bed specifications is offered the first available bed. Furthermore, the CCACs, in conjunction with the Ontario Association of Community Care Access Centres, have developed a standardized protocol for auditing the appropriateness of placement decisions. This protocol was being tested at the time of our follow-up in order to improve and streamline the process. It was expected to be in place by spring 2015. Prior to implementation of this standardized process, each of the CCACs was taking different actions to address this recommendation. For example, one CCAC visited was using a wait list exceptions report it had introduced in fall 2012. With it, senior managers could follow up on any exceptions to the legislation governing how placements are to be prioritized. Another CCAC had introduced quarterly audits, starting in the 2014/15 fiscal year, using LTC home historical wait lists to ensure that the highest priority client matching the bed specifications was offered the available bed. The third CCAC had developed a business process to support periodic audits of the bed offer process. However, it indicated that the process had not been implemented due to resource constraints and because the planned audits would be labour intensive.

Recommendation 2

To help clients move out of hospital more quickly and to help manage growing wait lists, the Ministry of Health and Long-Term Care (Ministry) should consider options employed by other jurisdictions, as well as making more community alternatives to long-term-care (LTC) homes available and having LTC homes provide more restorative and transitional care programs to improve, among other things, clients' functioning.

Status: In the process of being implemented.

As well, to better ensure that clients assessed as eligible for an LTC home are placed as soon as possible, the Ministry should streamline the client health assessment form (to avoid duplicating information that is already obtained as part of the eligibility assessment and to avoid potentially delaying the process).

Status: In the process of being implemented.

Details

By December 2013, the Ministry had funded 250 additional convalescent care beds at LTC homes to help clients move out of hospitals more quickly, among other things. About 10% of the beds were new; most of the rest were converted from regular long-stay beds in LTC homes. These beds are available to people, for up to 90 days a year, who do not need permanent residence in an LTC home, but do need care and time to recover (their strength and functioning, for example). Ontario is also participating in the Health Care Innovation Working Group, composed of provincial and territorial ministers of health, which is focusing on enhancing provincial and territorial capacity to better meet challenges in health care. One priority of this working group is seniors' care and the sharing of best practices to prioritize homecare over long-term care. The working group was expected to present a summary report to the premiers by fall 2014.

The Ministry, in conjunction with the CCACs, is in the process of streamlining the client health assessment form so that physicians can complete it more quickly. The revised form will still duplicate clinical information on the health assessment form completed by the CCACs. The Ministry indicated that this was necessary to verify information about a client's health status. The Ministry indicated that the CCACs would start using the new form in late 2014.

Wait Times

Recommendation 3

To better ensure that clients have sufficient information on the long-term-care (LTC) home placement process and wait times for LTC home admission, the Ministry of Health and Long-Term Care (Ministry), in conjunction with the Community Care Access Centres (CCACs), should:

- *provide the public with detailed information on the LTC home admission process and the policies in place to ensure the process is administered equitably;*

  Status: In the process of being implemented.

- *examine options for encouraging greater utilization of basic accommodation in less desirable homes; and*

  Status: In the process of being implemented.

- *promote the public disclosure of information that would help people choose which LTC homes to apply to, such as wait times by home, by type of accommodation—private, semi-private and basic—as provided on one CCAC's website, and wait time by priority level.*

  Status: In the process of being implemented.

Details

At the time of our follow-up, the Ministry indicated that it was planning to include detailed information on the LTC home admission process on its Health Care Options website by late fall 2014. Furthermore, all CCACs, including the three we visited, had updated their public websites to provide some more detailed, standardized information on the LTC home application process, including the admissions process. In addition, two of the CCACs visited had posted on their websites a video walk-through of the LTC home placement process. As well, both of these CCACs had each developed their own information booklets on the LTC home admission process. Two of the three CCACs had posted on their websites a statement that they have processes in place to ensure the LTC home admission process was administered equitably, as well as a phone number to call for more information.

Since some LTC homes, such as older, less desirable LTC homes, have lower bed occupancy rates than the Ministry's 97% occupancy target, the Ministry updated its financial remuneration policy to create a greater incentive for LTC homes to achieve higher occupancy rates. However, it was not clear how these changes would encourage more clients to apply for basic accommodation beds in less desirable homes or otherwise increase the occupancy of these less desirable beds. The Ontario Association of Community Care Access Centres indicated that variations in design standards for basic accommodation in LTC homes (for example, four beds per room in older homes versus one or two beds per room in newer homes) continue to be a challenge to increasing occupancy rates in older homes. In this regard, the CCACs visited were working to improve utilization of LTC beds in less desirable homes. For instance, one CCAC indicated that its care co-ordinators now review idle bed listings daily to ensure that clients are aware of available long-term-care beds and the estimated wait times for beds in more desirable homes. Another CCAC, in conjunction with its LHIN, reviewed LTC home bed utilization and converted eight idle long-stay beds to shorter-stay convalescent care beds, resulting in fewer idle bed days. The third CCAC indicated that it shared its idle bed lists with local hospitals daily to provide options to hospital patients. The Ministry's analysis of LTC homes' occupancy data between 2008 and 2013 indicated a slight decrease in the percentage of LTC homes falling below the Ministry's 97% occupancy target.

All CCACs across the province now publicly disclose information on their websites on wait times by LTC home and by type of accommodation (private, semi-private or basic). Although information is also being provided publicly on the various placement priority categories, the decision was made not to publicly disclose wait times by these priority levels. The Ministry indicated that the CCACs would continue to verbally discuss wait times by priority level with individual clients because the information was complicated. In this regard, the Ministry indicated that the CCACs have identified the need to develop a guidance document to better support CCAC staff in communicating this information to clients. Such guidance was expected to be developed by February 2015.

Oversight

Recommendation 4

To enhance the oversight of the long-term-care (LTC) home placement process, the Ministry of Health and Long-Term Care (Ministry), in conjunction with the Local Health Integration Networks (LHINs) and Community Care Access Centres (CCACs), should:

- *develop consistent performance measures for monitoring the process, such as wait times for clients waiting in hospital versus at home, wait times for clients requesting preferred (that is, private or semi-private) versus basic accommodation, and the percentage of clients who receive their requested transfer to another LTC home; and*

  Status: Little or no progress made.

- *develop target guidelines for completing each stage of the LTC home placement process, such as the times to determine client eligibility, for hospital clients to complete placement applications, and for clients to get onto a wait list.*

  Status: Little or no progress made.

Details

At the time of our follow-up, one new performance measure—the wait time from the client's application for LTC home placement until the client's eligibility determination—had been added to the Ministry-LHIN Performance Agreement for the 2014/15 fiscal year. As well, three others were being developed: wait time from eligibility determination to LTC home acceptance/rejection; wait time from LTC home acceptance to placement; and application refusal rate by LTC homes. However, consistent performance measures have not yet been developed for monitoring other aspects of the LTC home placement process, such as wait times for clients waiting in hospital versus at home; wait times for clients requesting private or semi-private versus basic accommodation; or the percentage of clients who receive their requested transfer to another LTC home. The Ministry indicated that, in conjunction with the Local Health Integration Networks, CCACs and LTC homes, it would consider adding additional performance measures, including these, in the future.

Target guidelines have yet to be developed for completing each stage of the LTC home placement process. Establishing and achieving targeted time frames for each stage in the LTC home placement process can help ensure that individuals are placed in a timely manner. The Ministry indicated that decisions related to creating targets would be made after the associated performance measures were established and data reliability was confirmed. At the time of our follow-up, no time frames had been set for when the Ministry expected this to occur.

Chapter 4

Section

4.08 Metrolinx—Regional Transportation Planning

Follow-up to VFM Section 3.09, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended: Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	1		1		
Recommendation 2	1		1		
Recommendation 3	1		1		
Recommendation 4	2		2		
Recommendation 5	1		1		
Recommendation 6	2	2			
Recommendation 7	1	1			
Recommendation 8	2		2		
Recommendation 9	1			1	
Recommendation 10	2	2			
Recommendation 11	1		1		
Total	**15**	**5**	**9**	**1**	**-**
%	**100**	**33**	**60**	**7**	**-**

Background

Metrolinx, an agency of the government of Ontario, was created by the *Greater Toronto Transportation Authority Act, 2006*, now the *Metrolinx Act, 2006* (Act). According to the Act, one of Metrolinx's key objectives is to provide leadership in the coordination, planning, financing and development of an integrated, multi-modal transportation network in the Greater Toronto and Hamilton Area (GTHA).

In November 2008, Metrolinx formally adopted a Regional Transportation Plan (Plan)—also known as "The Big Move"—that set out the priorities, policies and programs for implementing a transportation system within the GTHA. The Plan, which was the result of two years of public consultation, was adopted by Metrolinx's Board of Directors, which at that time included representatives from the GTHA municipalities.

Among the Plan's more significant proposals was to build more than 1,200 km of rapid transit with the aim of getting 80% of GTHA residents within 2 km of rapid transit. The timeline for implementing the Plan was 25 years. Its estimated cost of $50 billion related only to upgrading and expanding the regional transportation network in the GTHA, but did not include the maintenance that was expected to be required to keep the additional transportation infrastructure in a state of good repair over its useful life.

In the first 15 years of the Plan, Metrolinx planned to implement a number of priority transit projects, including various light rail and bus rapid transit projects in the GTHA, the Air Rail Link from Toronto Pearson International Airport to Union Station in downtown Toronto (now called the Union Pearson Express), revitalization of Union Station, and the continued development of the Presto electronic fare card system. Its estimate of the cost of these projects was approximately $33 billion, of which approximately $3 billion had been spent at the time of our 2012 audit. Funding for some of these projects was to come primarily from a 2007 provincial commitment of $11.5 billion, along with previously announced project funding. Other projects—such as the Union Pearson Express (UPE) between Union Station and Toronto Pearson International Airport and projects to revitalize Union Station—were being funded from the province's capital budget for GO Transit (the commuter rail and bus system serving the GTHA, a division of Metrolinx). At the time it made the 2007 commitment, the province asked the federal government to contribute $6 billion toward the Plan's implementation. At the time of our 2012 audit, the federal government had committed $1.93 billion on a project-by-project basis. This combined funding was expected to sustain the Plan's implementation until about 2018. By 2013, Metrolinx was to provide the province with recommendations for funding the implementation of the remaining unfunded projects contemplated under the Plan's first 15 years as well as other projects contemplated in years 16 through 25.

In 2012, our review of the more significant projects in the early stages of the Regional Transportation Plan identified a number of issues that Metrolinx had to address. Specifically:

- We believed that Metrolinx's initial assumptions about projected annual ridership on the Union Pearson Express (UPE) may well have been overly optimistic given the high cost of the fare. While a final decision had not been made on whether the UPE was to recover its annual operating costs and any of its capital construction costs, if operating the UPE on a break-even basis was indeed the objective, achieving that objective may not be feasible.
- A region-wide integrated transit fare system was one of the Regional Transportation Plan's key strategies. The Presto fare card was regarded as a key component in implementing this strategy. Metrolinx's view was that the Presto fare-card system created the underlying technology platform needed for fare integration. But, at the time of our 2012 audit, the card had not facilitated fare integration within GTHA transit systems because the fare structures across these systems were themselves not integrated. We noted the following additional issues with respect to the Presto fare-card system:
  - When the Presto system was initially developed, the Toronto Transit Commission (TTC), which had over 80% of the transit ridership in the GTHA, had not agreed to implement Presto on its system. However, at the time of our 2012 audit, the TTC, along with the city of Ottawa, had conditionally approved Presto's adoption subject to the satisfactory resolution of some key issues. To meet the requirements of Toronto and Ottawa, Presto Next Generation (PNG), was being developed at an anticipated cost of $498 million. In total, more than $700 million could be paid to

  the contractor for developing the original Presto system and PNG, which would place Presto among the more expensive fare-card systems in the world.
  - Rather than competitively tendering the procurement of the development of the Presto Next Generation system, Metrolinx decided to develop it by way of open-ended change orders under the existing vendor's contract. We believed tendering would have, at the very least, informed Metrolinx of potential new developers and whether other vendors might have had more cost-effective technology solutions.
  - Since going into service approximately two years earlier, Presto's overall usage within participating GTHA transit systems was only about 18% at the time of our 2012 audit. Although seven of the eight municipal transit agencies in the 905 area code had implemented Presto, overall Presto usage on those systems was even lower, at only 6%. These transit agencies could not completely eliminate their old fare systems in favour of Presto because of some of the fare card's limitations.
  - The contract for the Presto base system contained 22 measures designed to gauge the contractor's performance in such areas as system availability and customer management. In 2011, the contractor failed to meet the set standard in nearly a third of the measures, but Metrolinx did not seek any of the related penalties stipulated in the contract. The contract also contained reliability measures for the devices used by the Presto base system, but neither the contractor nor Metrolinx tracked this information.
- The two major projects related to the revitalization of Union Station had experienced significant cost increases over their initial cost estimates. For instance, the cost of restoring the train shed could reach $270 million—25% over Metrolinx's initial estimate. Similarly, the cost of replacing the switches in the Union Station Rail Corridor could be more than twice the amount of the original purchase order, which totaled about $38 million.

Although those GTHA municipalities and transit agencies we talked to questioned the priority given to some of the projects within the Regional Transportation Plan, they generally supported the Plan. However, some GTHA municipalities indicated that Metrolinx needed to provide more regular updates on the major projects in the Regional Transportation Plan and on the Plan's overall status, including the strategies being considered to fund the as-yet unfunded projects in the Plan.

Status of Actions Taken on Recommendations

Metrolinx provided us with information in the spring and summer of 2014 on the current status of our recommendations. According to this information, a third of the recommendations in our *2012 Annual Report* have been implemented. For example, Metrolinx, after consulting with stakeholders, had provided the Ministry of Transportation with an investment strategy to fund projects within the Regional Transportation Plan. The agency had also put measures in place to regularly report on project costs and their progress towards completion.

Our other recommendations are requiring more time to be fully addressed, such as defining the business model under which the Union Pearson Express will operate to ensure that it will be a viable and sustainable operation. In conjunction with the provincial government and transit providers, Metrolinx still needs to develop a strategy for implementing better fare integration among GTHA transit systems.

The status of the actions taken on each recommendation is described in the following sections.

Union Pearson Express (Formerly called the Air Rail Link)

Cost Recovery

Recommendation 1

Metrolinx should work with the Ministry of Transportation to clearly define the business model under which the Air Rail Link (ARL) should operate to ensure that the ARL will be a viable and sustainable operation. Given the importance of having a reliable estimate of projected ridership at the various possible fare levels, Metrolinx should periodically update its ridership forecast.

Status: In the process of being implemented.

Details

In our *2012 Annual Report*, we noted that if the aim was for what is now called the Union Pearson Express to break even in its first year, Metrolinx would have to charge a fare of about $28 for the full distance based on its ridership projections and estimated annual operating costs, including capital amortization. However, the results of a market assessment of GTHA residents conducted in November 2011 by Metrolinx revealed the following:

- More than 90% of GTHA residents leave from and return to their home when travelling through Toronto Pearson International Airport, so the added cost and inconvenience of getting to and from one of the three Union Pearson Express stations with their luggage would probably discourage some residents from using the Union Pearson Express.
- The Union Pearson Express's likely price point may also be a concern. Although nearly 70% of potential riders currently using Union Station as an airport access or egress point indicated that they would probably use the Union Pearson Express, nearly 75% of those respondents who were GTHA residents also indicated that they would not be willing to take the Union Pearson Express at a cost of $22.50 or more. As well, 60% of visitors and 90% of airport employees would not use it at a cost of $22.50 or more. As would be expected, the percentages that would not use the Union Pearson Express increased as the proposed price increased.

This prompted us to recommend that Metrolinx should work with the Ministry of Transportation to clearly define the business model under which the Union Pearson Express should operate and periodically update its projected ridership at various possible fare levels.

In May 2013, Metrolinx contracted a private firm to update what is now known as the Union Pearson Express's ridership projections based on a single adult fare of $30 for a one-way trip between Union Station and Toronto Pearson International Airport. The firm projected that by 2018, 2.3 million riders would use the rail service. According to the firm's projections, this ridership would mainly comprise business and leisure travelers who normally would use taxis or other modes of car travel to and from the airport and the downtown core and not necessarily those who would use public transit.

In January 2014, Metrolinx provided an analysis on possible fare options to the Ministry of Transportation. The analysis identified that a single adult fare of $29.95 for a one-way trip between Union Station and Toronto Pearson International Airport, based on projected ridership of 1.07 million people in the first year of operation, rising to 2.35 million when the system reaches maturity, would enable the Union Pearson Express to recover 100% of its operating costs by 2018. Metrolinx advised us that a formal recommendation on the fare structure for the Union Pearson Express will be made to its Board in December 2014.

The "Spur" Line

Recommendation 2

When assigning values to transferable risks in the evaluation of value for money between procuring assets by way of the traditional method or by way of the Alternative Financing and Procurement (AFP) model, actual experience from recent traditional *infrastructure procurements and AFPs should be thoroughly assessed.*

Status: In the process of being implemented.

Details

The Union Pearson Express requires the construction of a 3.3 km branch line, commonly referred to as the "spur," off of GO Transit's Kitchener rail corridor connecting to a new passenger station in Toronto Pearson International Airport's Terminal 1. When Metrolinx became responsible for the development of the Union Pearson Express, the government directed it to evaluate options for the delivery of the "spur" line and any related station work, including possibly using the Public–Private Partnership (P3) model—which in Ontario is called the Alternative Financing and Procurement (AFP) model. Generally, AFPs are contractual agreements between the government and the private sector under which the private-sector businesses construct and finance assets and deliver services, and the various partners share the responsibilities and business risks.

Infrastructure Ontario, a Crown Agency, oversees the delivery of all AFP projects in the province. Before deciding on the delivery model for a particular project, Infrastructure Ontario assesses which delivery model will provide the most value for money (VFM). This VFM assessment compares the total project costs of two different delivery models (that is, AFP versus a traditional delivery method). In evaluating the VFM of procuring assets either in the traditional manner or by way of the AFP model, it is often the monetary value of the risks retained under each delivery model that tends to tip the scale in favour of the AFP model. The VFM assessment concluded that using the AFP model for delivery of the "spur" would result in a net savings of about $20 million. While the total construction costs and ancillary costs (for example, legal, engineering and project management fees) under the AFP approach were estimated to be about $22 million higher, this was offset by an estimated $42 million in hypothetical savings related to the transfer of risks under the AFP model. In 2012, we noted that the monetary values assigned to the risks seen as retained under both delivery models were derived based on the judgment of Infrastructure Ontario staff, Metrolinx staff and a consulting firm that devised the probabilities and impacts associated with the various risks. We saw no evidence that the estimates of the risks of delivering the "spur" under traditional procurement were based on actual experience of similar, traditionally procured transportation projects.

In 2014, we reviewed Infrastructure Ontario's overall processes for procuring large infrastructure projects using the AFP delivery model, including its processes for assessing VFM between AFP and traditional delivery methods. We noted that Infrastructure Ontario continues to rely on external advisers to assign and value risks when comparing the AFP model and the public-sector model for delivering projects. There is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. The agency relies on the professional judgment and experience of the advisers to make these cost assignments, making them difficult to verify. However, the agency was proposing to refresh its methodology for assessing VFM between AFP and traditional delivery methods. The changes proposed included consolidating the number of risks considered and assigning new risk probabilities and impact to reflect Infrastructure Ontario's experience gained to date on the delivery of AFPs.

Presto Fare System

Project Cost

Recommendation 3

Metrolinx should ensure that it formally considers the risks of continuing with the development of Presto Next Generation (PNG), given that the specific business requirements of the Toronto Transit Commission (TTC) for using PNG on its transit system and the costs for which the TTC would be responsible have not yet been formally agreed to.

Status: In the process of being implemented.

Details

A key reason for the development of Presto Next Generation is to meet the needs of the Toronto Transit Commission (TTC). However, at the time of our 2012 audit, the TTC had not yet formally signed on to using the fare card since Metrolinx and the TTC had not yet finalized the TTC's service-level requirements and how the service levels will be achieved through Presto Next Generation. In November 2012, just prior to the release of our *2012 Annual Report*, Metrolinx had signed a master agreement with the TTC to provide an electronic fare collection system that would meet the TTC's business needs.

According to the agreement, the TTC will have Presto fully implemented throughout its entire subway, streetcar and bus system by March 2017. Metrolinx would be responsible for supplying and maintaining all Presto devices and core and back-office systems, providing call centre services, and collecting all fare revenue through the Presto card. As consideration, Metrolinx will retain 5.25% of the gross fare receipts it collects.

At the time of our 2012 audit, the anticipated cost of developing and operating the original Presto system and the Presto Next Generation system was $955 million. According to a March 2014 update provided to the Board of Metrolinx, this cost is expected to increase. The main reason for the increase is higher-than-expected deployment costs of Presto Next Generation in Ottawa and higher projected costs for the TTC. Given the expected increase, among other things, the Board requested staff to retain specialized expertise to conduct a value-for-money analysis on the Presto program and to complete a technology audit to validate the appropriateness and sufficiency of the existing system and future plans. At the time of our follow-up, these were not yet complete.

Fare Integration and Presto Usage

Recommendation 4

To ensure that the Presto base system and the Presto Next Generation system meet the objective of facilitating a seamless, integrated fare for all transit systems across the GTHA, Metrolinx should:

- *work with the provincial government and GTHA municipalities to resolve the issue of subsidizing fare integration so that progress can be made on implementing an integrated fare system; and*
  Status: In the process of being implemented.
- *work with GTHA municipalities and regions to resolve outstanding issues related to the operation of Presto that inhibit riders' use of the fare card within their respective transit systems.*
  Status: In the process of being implemented.

Details

In 2012, we noted that Presto had not in itself facilitated the integration of fares (i.e., a fare system that would allow riders to cross regional and municipal boundaries using different transit systems by paying just one fare rather than having to pay different fares for each system travelled on) across GTHA transit systems. It was only being used as an "e-purse" so that users can tap a card to a reader and automatically pay for individual fares at participating GTHA transit systems. GTHA municipalities and transit systems indicated to us that as long as transit funding remained a municipal responsibility, fare integration would be difficult to achieve because GTHA municipalities were not willing to absorb the cost of the subsidies that an integrated fare system may entail.

At the time of our follow-up, Metrolinx had committed to continue developing full fare integration in its most recent strategic plan. Also, in December 2013, it presented to its Board a two-year work plan that proposed to conduct a series of consultations with transit providers and the general public with the aim of eventually developing a strategy, by fall 2015, for implementing better fare and service integration amongst GTHA transit systems.

At the time of our 2012 audit, Presto's overall usage within participating GTHA transit systems was only about 18%. GTHA transit agencies cited a number of issues with Presto that prevented them from eliminating their existing fare systems and migrating their full ridership to Presto. As of March 2014, Presto's overall usage within participating GTHA transit systems had increased to about 57%, much higher than the 18% we reported in our *2012 Annual Report*. While GO Transit and Brampton Transit have seen the highest uptake of Presto since our 2012 audit (these systems eliminated their old fare systems, which forced their ridership to use Presto), resulting in much of the increase in the overall usage of Presto, usage of Presto has also gone up in the remaining GTHA transit systems. Metrolinx is aiming to increase overall usage of Presto to 70% in the GTHA by 2018.

Project Procurement

Recommendation 5

To ensure that Metrolinx complies with the intent of the government's policy of open, competitive procurement, all value-for-money considerations and an appropriate business-case justification should be completed and approved by Metrolinx's Board and the Ministry of Transportation before any decision on the procurement of significant transportation projects is finalized, especially if retendering the projects is not considered to be a viable option.

Status: In the process of being implemented.

Details

In October 2006, the Ministry of Transportation signed a 10-year, $250 million contract with a vendor to design, develop and operate the Presto base system. This contract was procured through a competitive process and subjected to a fairness review that concluded that the process was conducted in a procedurally fair, open and transparent manner. However, in 2012, Metrolinx was unable to provide evidence supporting its 2009 decision to develop the Presto Next Generation (PNG) system solely through change orders to the existing Presto contract rather than through a competitive tender. We questioned whether tendering the new system's development would have, at the very least, informed Metrolinx of the range of options and what a reasonable cost would be for developing PNG.

Metrolinx, in its response to our 2012 recommendation, agreed that value-for-money considerations and an appropriate business-case justification should be completed and approved before making any decision on a project's procurement strategy. With respect to PNG, Metrolinx also noted in its response that as it moves forward, it was reducing the role of the vendor and increasing the amount of work to be procured in separate competitive processes. At the time of our follow-up, we noted that the actual development of PNG was still being carried out via change orders. Metrolinx had initiated discussions with the vendor to take over certain operational functions—such as back-office financial reporting, managing the procurement of PNG equipment, operating the call centre, and providing web services for PNG—in order to reduce its reliance on the vendor. But the vendor was only willing to give up some of these services stipulated in the original 2006 contract if the "lost" revenue was replaced through other new services. As a result, Metrolinx was negotiating with the vendor to set up an application development centre, comprising 40-50 of the vendor's staff, which would be dedicated to providing maintenance support, enhancements and small project work related to PNG. Metrolinx expected that the application development centre would result in savings of 15% to 20% by diverting this type of work from the more costly change order process. Metrolinx advised us that it plans to return to the market to competitively procure the ongoing management of the Presto system once the TTC deployment is completed. In the meantime, large PNG system changes will continue to be carried out using the existing change order process.

For future transportation projects, Metrolinx, in December 2013, instituted a capital project approval policy designed to, among other things, provide additional assurance to the Board with respect to the projects. Details of this policy are discussed under the status of recommendation 8.

Change-order Management

Recommendation 6

In order to effectively manage the cost of change orders related to the Presto base and Presto Next Generation systems, Metrolinx should:

- *implement a process that distinguishes between change orders that amend the systems from their original specifications in the contract and those that correct identified defects in the systems' original development, and allow the contractor to charge for only those change orders that pertain to requested changes or enhancements to the original design specifications; and*
  Status: Fully implemented.
- *prepare internal cost estimates for each change order to enable the reasonableness of the amount charged by the contractor to be knowledgeably assessed.*
  Status: Fully implemented.

Details

In our *2012 Annual Report*, we noted that since the execution of the contract for the Presto base system in 2006, 330 change requests totaling $146 million had been made under the contract. Of these, 281 change orders totaling $45 million related to fixes or enhancements to the Presto base system that were requested by either Metrolinx or the participating transit agencies, with the balance relating to PNG. GTHA transit systems in the 905 area code that we met with indicated that changes to the Presto base system often seemed too costly and that change requests were not always completed on what they felt was a reasonably timely basis.

Since our 2012 audit, Metrolinx has implemented the following with respect to its change order process to ensure that the contractor does not charge for defects identified in the Presto base system's original development:

- Change requests are now only made by Metrolinx and the participating transit agencies. The vendor can no longer initiate requests.
- Only change requests for new requirements, or changes to existing requirements, are presented to the Presto Review Board (a body made up of senior staff of the Presto group at Metrolinx that reviews, assesses the impact of, prioritizes, and approves all change orders). The vendor is now no longer represented on this review board.
- All change order requests must detail the nature of the change orders and now must be approved by the Executive Vice President of the Presto Division of Metrolinx before they can be implemented. Metrolinx advised us that if the change order pertains to the fixing of a defect, then the order would not be approved.

The following has also been implemented by Metrolinx to ensure that it can assess the reasonableness of the amount charged by the contractor for each change order:

- a review of previous similar work done by the vendor and/or a sampling of similar services/ products available in the market;
- a reasonability check for all capital change orders greater than $1 million that entails reviewing the number and complexity of the deliverables and using industry standard rates to calculate an estimated cost, which can then be compared to the contractor's quote; and
- a review of the quote by a subject matter expert and, if a transit agency is responsible for the cost of the change order, all details are submitted to that agency for review and approval.

Other Presto Issues

Recommendation 7

To ensure that the Presto base and Presto Next Generation systems remain available for use after the end of the existing contract, Metrolinx needs to finalize its current negotiations with the contractor to ensure that it secures ownership of these two systems.

If the contractor fails to meet the performance standards stipulated in the contract, Metrolinx should have a valid justification for not applying the available remedies and penalties set out in the contract.
Status: Fully implemented.

Details

In November 2012, Metrolinx finalized an agreement with the vendor that clarified the ownership of the key components of the Presto base and Presto Next Generation systems, including confirming its right to use the systems in perpetuity. As per the agreement, Metrolinx can market Presto to government entities in Canada, while the vendor can market the rights globally and to non-government entities in Canada. In consideration for this, the vendor agreed to pay $25 million to Metrolinx.

Even though Metrolinx can market Presto to government entities in Canada, we noted that it chose not to respond to a tender for an electronic fare management system put out by the Region of Waterloo Grand River Transit in 2013. According to a Region of Waterloo council report, while Metrolinx was willing to negotiate with the Region to develop a fare system to meet their needs, it decided that it was not appropriate for a provincial agency to compete with the private sector.

Also, since our 2012 audit, Metrolinx in collaboration with the vendor has developed a reporting process whereby the contractor communicates to the agency their compliance with service levels in monthly operations reports. In our review of a sample of these reports, we noted that the vendor had not incurred any failures in meeting performance standards that warranted remedies in accordance with the agreement.

Union Station Revitalization

Recommendation 8

To ensure that projects under the Regional Transportation Plan are delivered cost-effectively and on time, Metrolinx should ensure that contracts have firm ceiling prices, whenever possible. Contracts should then be monitored for adherence to the original ceiling price.
Status: In the process of being implemented.

For work in the Union Station Rail Corridor, Metrolinx should also consider seeking other qualified suppliers or obtaining in-house expertise.
Status: In the process of being implemented.

Details

In our *2012 Annual Report*, we noted that the costs of two major projects related to the revitalization of Union Station (the restoration of the train shed and the replacement of switches in the Union Station Rail Corridor) increased significantly over their initial estimates. Significant price changes in contracts can occur because of poor planning, inadequate processes for estimating the initial cost projections, weak monitoring of the project, or a combination of these problems.

In December 2013, Metrolinx introduced a new capital project approval policy that set different approval requirements depending on the estimated cost of the project. For example, projects greater than $50 million require Board approval. According to the policy, project approval documents must contain details on the scope of the project, schedule, estimated costs, any interdependencies, and risks. The policy also contains more rigorous reporting requirements on individual projects. For example, for projects greater than $50 million, the Board must be apprised of their status on a quarterly basis. Metrolinx advised us that it was also considering the following:

- implementing measures to evaluate bids, particularly for unique or old historical buildings, based on the quality, accuracy, and timeliness of the work proposed rather than just the lowest price;
- having internal cost estimates independently reviewed by a third party to ensure reasonableness and to avoid having the estimates managed toward a pre-determined budget number; and

- ensuring that adequate site investigations are conducted during design to reduce the number of unanticipated site conditions found during construction.

In our *2012 Annual Report*, we expressed concern over the fact that Metrolinx had not actively sought other qualified suppliers or considered the feasibility of developing in-house expertise to conduct work in the Union Station Rail Corridor. As a result, we believed Metrolinx could become overly dependent on its current sole contractor, the corridor's previous owner.

In its response to our recommendation, Metrolinx indicated that it continues to take additional steps to reduce its future reliance on existing suppliers, including obtaining in-house expertise to carry out work along the Union Station Rail Corridor in the future. Metrolinx will apply a different model in 2016, when the existing contract with the current vendor tasked with carrying out work in the Union Station Rail Corridor is scheduled to expire.

Regional Transportation Plan

Role of Metrolinx

Recommendation 9

Metrolinx should ensure that all projects contemplated under the Regional Transportation Plan are subjected to a rigorous cost/benefit analysis that considers financial, economic, environmental and social needs and impacts and that transit infrastructure investment decisions are made on the basis of that analysis.

Status: Little or no progress.

Details

In our *2012 Annual Report*, we noted that in the debates over the City of Toronto's transit projects within the Regional Transportation Plan, Metrolinx was not being a strong enough advocate for what its own cost/benefit analysis concluded was the right course of action for these projects. GTHA municipalities and transit agencies that we talked to used the debates as an example to question Metrolinx's ability to objectively act as the GTHA's central transit planning authority to ensure that the most cost-effective and value-added transit infrastructure decisions are made.

At the time of our follow-up, we noted that Metrolinx's assessments of the right course of action for transit projects continued to be overridden by local government. While Metrolinx's cost/benefit analysis supported the use of light rail technology for the upgrade and extension of the Scarborough Rapid Transit (SRT) line from Kennedy Station to Sheppard Avenue, a project contemplated under the Regional Transportation Plan, Toronto City Council voted, in July 2013, in favour of replacing the SRT with an extension of the Bloor–Danforth subway. This effectively cancelled Metrolinx's light rail proposal, which it believed to be the right solution for the transportation challenges in the area and one that could have been delivered within the $1.48 billion provincial contributions provided for it. Metrolinx accepts that governments are the ultimate decision makers in these matters and that it must defer to their judgments. Therefore, investment decisions may not always be made on the basis of a cost/benefit analysis. However, in the 2014 Budget, the Province committed to working with Metrolinx and municipalities to prioritize transit investments through the use of business case analyses.

Since Metrolinx had already begun planning for the upgrade and extension of the SRT, the decision to replace it with a subway resulted in sunk costs of $80 million, for which the City of Toronto will reimburse Metrolinx. Metrolinx no longer has responsibility for this project, and while the subway option is more costly, the provincial contribution will remain at $1.48 billion. The City of Toronto will have to raise any additional funds that would be required for the more costly subway option.

Plan Funding and Plan Progress Reporting

Recommendation 10

To ensure that provincial, regional and municipal stakeholders are kept up to date on the funding requirements and progress of the Regional Transportation Plan (RTP), Metrolinx should:

- *regularly consult with GTHA municipalities and other key stakeholders as the funding strategies are being formulated, especially on options that affect local residents; and*
  Status: Fully implemented.
- *have clearly defined targets for the RTP's more significant projects and regularly report on costs and progress toward completion.*
  Status: Fully implemented.

Details

At the time of our 2012 audit, funding had been committed for more than half of the priority transit projects within the Regional Transportation Plan's first 15 years. By June 1, 2013, Metrolinx had to report back to the province on an investment strategy to fund the remaining projects within the Regional Transportation Plan's first 15 years, as well as the projects contemplated in years 16 through 25. In our discussions with GTHA municipalities, some indicated that Metrolinx should more regularly update their respective councils on the Plan's overall status, including the status of initiatives contemplated under the Regional Transportation Plan that are not yet funded. These updates would help municipalities to better prioritize local projects.

Subsequent to our 2012 audit, Metrolinx did consult with GTHA municipalities and local residents in developing the funding strategy. The strategy was completed and submitted to the Ministry of Transportation in May 2013. It contained 24 recommendations, including recommending that the following four specific investment tools be used to raise funds for the delivery of the transit projects within the Regional Transportation Plan:

- a 1% increase in the HST;
- a 5 cent per litre transportation fuel and gasoline tax applied in the GTHA;
- a parking levy on all off-street and non-residential spaces; and
- a 15% increase in development charges.

Upon receiving the strategy, the Ministry convened a 13-member Transit Investment Strategy Advisory Panel to advise it on how to best proceed with the proposed strategy. After three months of public consultations with key stakeholders and residents in the GTHA, the panel released its final report on December 12, 2013. The report put forward 20 recommendations to support transportation planning, including revenue strategies to fund transit projects within the GTHA. In the May 2014 Budget, the government proposed creating two dedicated funds to support public transit and transportation infrastructure projects. Proposed revenue sources for these funds included restricting large corporations from claiming the small business deduction and phasing in an increase to the tax rate on aviation fuel. The Province also proposed dedicating the proceeds from 7.5 cents per litre of the existing provincial gasoline tax to these funds, without increasing the current rate, and repurposing revenues from the existing HST charged on the current provincial taxes on gasoline and road diesel.

In an effort to better monitor and regularly report on the implementation of the Regional Transportation Plan, Metrolinx publicly released, in September 2013, the Big Move Baseline Monitoring Report. The report provides a snapshot of the work under way in implementing the 25-year Plan and a framework for its long-term assessment. Specifically, the report:

- provides the status of the priority actions and policies contained in the Regional Transportation Plan; and
- establishes a 2008 (when the Plan was initially released) baseline of key performance indicators for monitoring the objectives of the Regional Transportation Plan.

In addition, information collected for the report will be used to support the legislative review of the

Regional Transportation Plan in 2016, required by the *Metrolinx Act, 2006*.

Metrolinx now also reports publicly on a quarterly basis the progress of the Toronto and York Region light rail and bus rapid transit projects in the Regional Transportation Plan, including the Eglinton Crosstown light rail project in Toronto and the vivaNext bus rapid transit project in York Region.

Other Matter

Project Management Information System

Recommendation 11

Metrolinx should ensure that its project management information system provides the functionality needed to facilitate the effective monitoring of individual projects.
Status: In the process of being implemented.

Details

In 2012, we noted that in order to effectively monitor projects, project managers often supplemented the information provided by Metrolinx's project management system with manual spreadsheets maintained outside the system. This approach was necessary because the system did not have adequate functionality in areas such as scheduling and forecasting.

Subsequent to our 2012 audit, Metrolinx completed a system upgrade of its project management system and added a dashboard function that provides, among other things, an overview of the status of individual projects (showing, for example, whether a project is in the design or construction stage) and whether the projects are on-time and on-budget. At the time of our follow-up, Metrolinx had also planned a number of other upgrades to its project management information system, including automated project scheduling templates, better monthly cash flow forecasting, and automatic alerts for cost and schedule variances.

Chapter 4

Ministry of Community Safety and Correctional Services

Section

4.09 Ontario Provincial Police

Follow-up to VFM Section 3.10, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	**In Process of Being Implemented**	**Little or No Progress**	**Will Not Be Implemented**
Recommendation 1	1		1		
Recommendation 2	2		1	1	
Recommendation 3	4	1	3		
Recommendation 4	3			2	1
Recommendation 5	2	2			
Recommendation 6	2		1	1	
Recommendation 7	3		3		
Recommendation 8	2	2			
Recommendation 9	2	2			
Recommendation 10	2		1		1
Recommendation 11	3		1		2
Recommendation 12	2	1		1	
Total	**28**	**8**	**11**	**5**	**4**
%	**100**	**28.5**	**39**	**18**	**14.5**

Background

The Ontario Provincial Police (OPP) provides front-line police services in areas that do not have their own police forces, patrols provincial highways, and conducts investigations into complex criminal cases and organized crime. It also offers policing services on a contractual, cost-recovery basis to municipalities that request them and provides emergency and other support services to all communities in the province.

The OPP employs about 6,200 police officers and 2,400 civilian employees (6,270 officers and 2,300 civilian employees in 2011/12). It operates 77 detachments, which have 88 satellite police stations reporting to them (78 detachments and 87 stations in 2011/12).

OPP operating expenditures totalled $1.005 billion in the 2013/14 fiscal year ($979 million in 2011/12), with staffing costs making up 86% of that amount (87% in 2011/12). The OPP provides municipal policing services to 324 municipalities (322 in 2011/12) on a cost-recovery basis, as well as to 20 First Nations communities (19 in 2011/12), and was reimbursed $379 million in 2013/14 ($362 million in 2011/12) from municipalities.

In our *2012 Annual Report*, we noted that over the previous two decades, crime rates across Canada had declined by more than 40%, and Ontario had been part of this trend. Since our previous audit of the OPP in 2005, crime rates reported by the OPP had decreased 10%, and serious motor vehicle accidents had also been trending down, with both fatalities and injuries decreasing. Over the previous five years, the number of calls for service the OPP had responded to or initiated had remained relatively stable.

However, OPP expenditures net of recoveries from municipalities had increased by 27% over the previous five years. Most of the increase had occurred because more officers had been hired and staff had received higher compensation. We found that many other large police forces in Canada had similar expenditure increases, notwithstanding the declining rates of crime and serious motor vehicle accidents.

We found in our 2012 audit that many of the issues we reported on in 2005 continued to exist. Our major observations included the following:

- We found that officers faced significantly different workloads depending on where they were assigned, with some officers handling 54% to 137% more calls than officers in other detachments. The reason for this may have been a staffing model that was almost 30 years old and that was used to deploy only about 45% of the 2,800 front-line officers.
- In 2005, the OPP told us it was working with the RCMP on a new officer-deployment computer model. The OPP had since claimed it was using this new model, but it was not. In March 2012, the OPP's existing model calculated that the force needed 500 more front-line officers, whereas the new model calculated it needed 50 fewer officers.
- OPP management had little control over shift scheduling at detachments, and almost all officers chose to work 12-hour shifts. This resulted in overstaffing during slow early-morning hours; addressing this could have resulted in savings in the range of $5 million to $10 million per year.
- OPP officers were among the highest compensated officers in Canada. Officers and civilians received certain benefits to which other members of the Ontario public service were not entitled, including significantly better pension benefits and other allowances.
- Although the OPP had lowered its overtime costs for the fiscal year ended March 31, 2005, by 10% to $33 million, overtime costs had increased by 60% to $53 million for the fiscal year ended March 31, 2012.
- The overall cost of OPP services for municipalities from 2007 to 2011 increased an average of 29% for those with contracts and 19% for those without—up to three times the annual inflation rate. While municipal officials told us that they were very satisfied with the OPP services they received, they expressed concern about these cost increases.

We made a number of recommendations for improvements and received commitments from the Ministry of Community Safety and Correctional Services that it would take action to address them.

Status of Actions Taken on Recommendations

Overall, the OPP has either fully implemented or made some progress in addressing 67.5% of our recommendations. However, it has made little or no progress on 18% of our recommendations and has said it will not be implementing another 14.5% of our recommendations.

The OPP has made some progress in improving its process for managing staffing resources. In our 2012 audit, we recommended that the OPP reassess the two computer-based models it was using to determine how many front-line officers it needed at detachments, and use only the one that provides the best estimate of officers needed. Since then, the OPP has tested and compared the two models—the older Deployment Model and the newer Policing Resource Model—and determined that the Deployment Model was the most suitable because it is designed to reflect the integrated municipal and provincial service delivery model used by the OPP in most detachments. Use of the Policing Resource Model has since been discontinued. However, the Deployment Model covers neither 55% of the officers nor any of the over 600 civilians at detachments, and no other process has been developed for rationalizing their numbers.

Our 2012 audit concluded that changing officers' shift schedules could either result in savings of $5 million to $10 million per year, or lead to improved service by better allocating staff to match the demand for service. The OPP has made some progress in changing shift schedules; however, it advised us that issues such as collective bargaining, the vast geography of the OPP detachments, training, court appearances, and supervisory and vehicle requirements continue to be barriers to altering shift schedules to save money. The OPP has lowered overtime expenditures by 27% ($14.1 million), from $52.8 million for the year ended March 31, 2012, to $38.7 million for the year ended March 31, 2014. To achieve these savings, the OPP imposed overtime constraints on all regions and bureaus, and changed shift schedules for some detachments to reduce overtime.

The OPP has not acted on our recommendation to address inaccuracies and inconsistencies between the two systems it uses for recording and reporting critical data such as police calls for service.

The current status of action taken on each of our recommendations is as follows.

Funding Levels for Policing

Recommendation 1

To support future decisions on funding for the Ontario Provincial Police, given the long-term trend of decreasing crime rates and fewer serious motor-vehicle accidents in Ontario and across Canada, the OPP, in conjunction with the Ministry of Community Safety and Correctional Services, should formally assess the correlation of its funding and staffing levels with the actual demand for policing services, based on such factors as calls for service, motor vehicle fatalities and injuries, number of reported offences, clearance rates for crimes and crime severity levels.

Status: In the process of being implemented.

Details

The OPP informed us that it has not formally assessed the long-term trend of its funding and staff resources in relation to the actual demand for policing services. However, the OPP's efforts have been focused on improving its deployment model, identifying best practices for more cost-effective policing, and improving its capacity to plan staff resources to match actual demand for services.

The OPP's annual budgets continue to be reviewed and approved by the Ministry, as part of the Ministry of Finance's annual budget approval process. Since our 2012 audit, the number of officers is down by 67 and civilian staff is up 98, and total operating expenditures have increased by 2.6% over the two years. Crime rates and severity of crimes have continued to modestly decline, although the OPP reports that the number of calls for service rose 1.7% from 2011 to 2013. We were advised that the OPP has been asked to reduce its expenditures for the fiscal year ending March 31, 2015, by $19 million to help address the province's annual budget deficit.

The OPP noted that crime rates are not always an accurate barometer of the need for police resources, given that proactive work and preventive programs often help reduce crime. As well, calls for service do not include proactive and preventive work such as crime abatement, street checks, RIDE checks and community mobilization initiatives. While crime rates are down, the OPP advised us that the complexity and demands of the criminal justice system have increased significantly, including investigations that are more complex and time-consuming, longer trials and complex legal issues and the need for increased training such as mandatory annual certification of firearms, use-of-force training and driver training.

The OPP's Deployment Model has been updated to reflect the current operational and workload standards and staffing requirements for front-line services at detachments, and the OPP advised us that preliminary results indicated that more officers were needed to meet its policing requirements in detachments. The model includes a number of core parameters used to determine front-line policing, including calls for service and all motor-vehicle collisions. A project team reviewed the values assigned to the core parameters and updated them where needed. Although the Deployment Model study supports the fact that crime rates are decreasing, the OPP further advised us that factors such as more mental-health calls have increased the average time per call. The OPP said it planned to continue to assess the correlation between prevention activities, crime rates and calls for services, and link these in any future modelling.

The OPP is planning to hold a symposium in late 2014 or early 2015 with other major Canadian police services to share ideas and approaches regarding best practices for delivery of policing and staffing models.

In a reorganization in October 2013, the OPP's program and financial analysts, business planners, researchers and statisticians were brought together into one department within the newly reconfigured Business Management Bureau to improve the OPP's capacity to perform statistical analysis and share information.

The Ministry of Community Safety and Correctional Services (Ministry) created the Future of Policing Advisory Committee (Committee) in 2012 to solicit strategic advice from community groups, other police services, civilian governing authorities, police associations and other government departments and agencies as part of a review of core police services under Ontario's *Police Services Act*. The goal of the Committee is to determine core and non-core police services to provide for effective, efficient and sustainable police service delivery and costs in Ontario. The Committee oversees a number of working groups, including those looking at crime prevention, law enforcement and victims' assistance, public order maintenance and emergency response, and administration and infrastructure. Recommendations for changes to legislation and regulations and/or policy matters are anticipated by fall 2014.

Managing Costs

Recommendation 2

To help ensure that the number of front-line officers at each detachment is based primarily on need and that officers are cost-effectively deployed, the Ontario Provincial Police should reassess its two computer-based models to determine which one provides the best estimate of requirements based on up-to-date and accurate operational and workload standards, and, once validated, use its staffing models to deploy and reassign officers.

Status: In the process of being implemented.

The OPP should also establish formal staffing methodologies for the other 44% of detachment staff not covered by its deployment model.

Status: Little or no progress.

Details

The OPP has approximately 4,400 of its 6,200 officers and 640 of its 2,400 civilian staff working in

77 detachments. Of the 4,400 officers working at detachments, about 2,850 officers are assigned to front-line general law enforcement. In order to deploy front-line officers cost-effectively and based on need, the OPP tested and compared its two computer-based models—the older Deployment Model and the newer Policing Resource Model. The OPP determined that the Deployment Model was still the most suitable because it is designed to reflect the integrated municipal and provincial service delivery model used by the OPP in most detachments. Use of the Policing Resource Model, which was originally developed by the RCMP with assistance from the OPP, has since been discontinued.

In our 2012 audit report, we found that of the then 2,800 officers assigned to front-line duties in detachments, the Deployment Model was used to calculate how to deploy only about 1,250, or 45%, of these officers, and only to those detachments that provide policing services under contract to municipalities. The model was not used to assess the deployment of some 1,550, or 55%, of other officers to detachments that provide other front-line policing services, such as patrolling provincial highways, or to municipalities that use the OPP to provide basic police service without contracts. The OPP advised us that staffing in detachments has not changed significantly since 2012 and remains primarily based on historical numbers; there has been no province-wide rationalization of the numbers. We were informed that there is no immediate plan to use the Deployment Model to assign all front-line officers, to both contract and non-contract municipalities.

The OPP has updated the Deployment Model's parameters, which are used to determine specific kinds of policing demands in detachments. An internal project team reviewed the validity of the values assigned to six core parameters, including detachment-area characteristics, number and type of citizen-generated calls for service, percentage of time an officer is available to respond to a call for service, patrol standards, total hours that officers are available for front-line policing and minimum staffing levels for officer safety. These parameters were updated as needed. Statisticians within the OPP's Business Management Bureau were in the process of reviewing the Deployment Model results and its potential impacts. Once this review was completed, the OPP was to compare actual staffing levels at detachments with staffing levels recommended by the model to determine whether the front-line staffing complement at each detachment was appropriate or needed adjusting. We were told that because detachments and local needs were diverse, OPP officials would have to analyze operations to determine actual staffing needs. Final approval of the Deployment Model update and assessment of the staffing requirements at detachments was scheduled to be completed by December 2014.

The OPP has made little progress in developing a formal staffing template for the other 44% of staff who work in detachments but are not covered by the Deployment Model. This includes 1,550 officers who do not perform front-line duties and 640 civilian staff. During our 2012 audit we were told that these people were deployed at detachments based on historical levels, and that, at the time, the OPP was engaged in a project to develop templates for detachment staffing and to identify inconsistencies and inequities in current detachment staffing levels. However, the project has since been put on hold until the updates to the Deployment Model are implemented. The OPP advised us it is planning to conduct further research with other police agencies on staffing models through a symposium to be held in late 2014 or early 2015.

As a result, the OPP is still not able to justify its detachment staffing levels, nor has it addressed the significant workload imbalances we noted in 2012.

Officer Shift Scheduling

Recommendation 3

In order to reduce operating costs and/or make the best use of available officers' time to more effectively respond to calls for service, the Ontario Provincial Police should:

- *implement measures to give management greater control over officers' shift scheduling and vacation entitlements to better co-ordinate staffing with hourly, daily and monthly demand for police services;*
  Status: In the process of being implemented.
- *provide detachment management with regular information that compares workload with staffing levels during all times of the year;*
  Status: Fully implemented.
- *reassess its current practice of having almost all detachments operate on a 24-hour basis to identify the savings potential of reducing operating hours at some detachments; and*
  Status: In the process of being implemented.
- *monitor adherence to the existing policy requirement that staff scheduling practices at detachments be formally reviewed annually to assess their efficiency and cost effectiveness.*
  Status: In the process of being implemented.

Details

In our 2012 audit report we concluded that changing shift schedules could either result in savings of $5 million to $10 million per year, or lead to improved service by better allocating staff to demand for service. The OPP agreed that some savings or efficiencies would occur through shift scheduling changes. However, due to various barriers such as collective bargaining, the vast geography of the OPP detachments, training, court appearances and supervisory and vehicle requirements, the OPP advised us that shift changes cannot be made in every detachment, and this significantly limits the potential for savings.

Detachment commanders continue to have limited control over officers' shift scheduling at detachments, and the process for changing shift schedules is lengthy and onerous. Officers generally must agree to proposed changes, and often the officers' union, the Ontario Provincial Police Association (OPPA), is involved. Changes can include shorter or longer shifts, as well as staggered shifts, where officers start at various times during the day to allow for more resources at peak times. OPP officials advised us that they were unsuccessful in including shift scheduling in the spring 2013 collective agreement negotiations and would continue to press for this when the current agreement expires December 31, 2014.

To provide detachments with information that compares workload and staffing levels throughout the year, a new Time Information Management Report (TIMR) was implemented in the summer of 2013. TIMR provides information monthly that allows for comparing demand for police services with staffing levels, overtime and absences. TIMR uses information from the OPP's Daily Activity Reporting (DAR) system, including sick leave, paid duty, overtime and calls for service, and provides an analysis as to how a detachment deploys its resources. For example, it compares peak periods of calls for service with what percentage of resources are deployed. TIMR displays this data on a graph by hour and date so management can see what resources are employed when calls for service are high compared to when they are low. This provides detachment commanders information to propose staggering shifts to meet workload demands and save overtime costs. Regions have reported that TIMRs help with completing shift scheduling reviews. Detachment and regional office staff have been trained in the use of TIMR tools.

In our 2012 audit report we noted that the OPP operated 77 of its 78 detachments on a 24-hour basis in 2011. We recommended that the OPP reassess this practice to identify potential savings by reducing operating hours at some detachments. The OPP has reassessed certain locations, and two additional locations are no longer operating on a 24-hour basis. This is a result of a decrease in the number of OPP officers due to the end of funding from the five-year federal Police Officers Recruitment Fund.

In our 2012 audit report we noted that the required annual shift scheduling reviews were not being conducted and that a committee that was established to review shift scheduling annually had not yet met. The OPP advised us that the shift scheduling review process was initiated province-wide in December 2013. All detachments were required to complete reviews, and regional headquarters then submitted review summaries to General Headquarters. The shift scheduling committee, which consists of representatives from OPP senior management and the officers' union, was to complete a provincial summary by fall 2014. This will provide a summary of detachment shift scheduling practices so detachments can compare their operational practices. OPP officials advised us that once the provincial report was done, they would assess whether changes in detachment shift schedules would result in cost savings or improvements to service delivery. The results so far indicate that most detachments are using or are planning to use some degree of staggered shift scheduling to better utilize resources and reduce overtime costs.

Use of Civilians

Recommendation 4

To help ensure that non-policing duties and responsibilities are handled as cost-effectively as possible, the Ontario Provincial Police should:

- *conduct a review of all staffing positions and responsibilities at its detachments and its regional headquarters and General Headquarters to determine where opportunities exist to fill positions currently held by officers with civilians at a lower cost;*

  Status: Little or no progress.

- *establish cost-saving targets and timelines for designating positions to either civilians or officers, depending on the duties of the position; and*

  Status: Little or no progress.

- *reassign officers who are currently in civilian positions back to front-line policing where possible.*

  Status: Will not be implemented.

  (We continue to believe this is an important and valid recommendation.)

Details

The OPP has not conducted a full review of all staffing positions and responsibilities at its detachments, regional headquarters and General Headquarters to determine where opportunities exist to fill positions currently held by officers with civilians at a lower cost. In addition, no new human resources policy had been established to require that civilians be considered to replace police officers where opportunities exist. Notwithstanding, the OPP advised us that it was planning to formally review and rationalize positions when they become vacant to determine whether the position should be filled by an officer or a civilian, or whether the position should be classified as a hybrid position for which both officers and civilians could apply. In this way, the review and implementation would occur simultaneously. The OPP is required to provide formal disclosure to the OPPA when changes are proposed to any position within the organization. During that notice period the OPPA has the right to contest the change to a civilian designation, and extensive discussion is required. The OPP noted that some positions are used to place officers who are being accommodated for pregnancy, injury, illness or any other cause that renders them unable to go out to calls. This would reduce the number of civilian positions available and the potential salary savings opportunities.

In our *2012 Annual Report*, we noted that a cost savings of $5.4 million could result if civilian employees took over more court and community services duties. At the time of our follow-up, the OPP had not opened any of these positions to civilian employees. The OPP told us that it has no ability operationally or within the confines of the collective agreement to have civilians fill specific positions held by officers quickly. As well, the OPP has determined that there are operational benefits to keeping these as positions for officers. The OPP is expecting more than 600 officers to retire between now and 2016. Review and rationalization will occur for each vacant position.

The OPP informed us it had established internally a target of saving $300,000 for converting officer to civilian positions over the past 24 months. As a result, 22 officer positions were replaced with civilians for an annual cost savings of $318,000. Examples of positions converted include communications trainer, operational analyst, tactical analyst, contract policing analyst and Crime Stoppers co-ordinator. The OPP had no further cost-saving targets and timelines for designating positions to either civilians or officers. In our 2012 audit report, we referred to a cost-management study where the OPP identified positions in Corporate Services now filled by officers that could just as well be filled by civilians. The study stated that the OPP could save $760,000 by shifting some positions held by officers to civilians. Of the 22 positions converted to civilian, only three related to Corporate Services for an annual savings of about $72,000.

The Ontario Internal Audit Division completed a review of the OPP's Aviation Services, which operates its aircraft, in May 2013 and reported that having civilians, rather than officers, in pilots' positions would result in cost savings. Recently, OPPA was informed that future vacancies in Aviation Services would be advertised allowing either civilians or officers to apply.

In regards to our recommendation of reassigning officers who are currently in civilian positions back to front-line policing duties where possible, the OPP advised us that these positions were not reviewed and will not be until the positions become vacant. In some cases these positions are held by accommodated officers who might never return to front-line duties. Accommodated members must get medical clearance before returning to front-line duties.

Differential Response Unit

Recommendation 5

To help achieve the significant cost and operational benefits of implementing a Differential Response Unit (DRU) program to free up front-line officers' time for more serious matters, the Ontario Provincial Police should:

- *establish a strategic plan for fully implementing its DRU program throughout the province, with targets for measurable savings and benefits, and associated timelines; and*

  Status: Fully implemented.

- *given the lack of widespread success in implementing the DRU program over the last decade, consider centralizing the program to improve service levels, enhance consistency and help realize economies of scale and cost savings.*

  Status: Fully implemented.

Details

In August 2012, the OPP completed a review of the Differential Response Unit (DRU) program. The Commissioner's Committee in February 2013 supported an option in the report to phase out the current DRU program and to transition to a new Frontline Support Unit (FSU) model. A project plan was completed in May 2014 identifying staffing requirements, workflow analysis, management oversight, program efficiencies and provincial training. Standard operating procedures and policies, and program performance measures were developed, and initial training was provided. The FSU was launched on July 7, 2014.

While the program is similar to the DRU, the FSU is structured so unit members report operationally to General Headquarters and administratively to their respective detachments. A program manager and provincial support sergeant provide central oversight from General Headquarters. The OPP told us the FSU means resources will be available everywhere in the province for traditional DRU calls. The FSU will also involve a larger number of accommodated officers who are unable to either temporarily or permanently work on front-line policing duties.

Also in July 2014, as part of FSU, the OPP introduced a new Citizen Self-Reporting system on its website, allowing citizens to file police reports online for selected crimes, including lost, damaged or stolen property under $5,000. An officer assigned to FSU does the initial investigation of these, leaving regular front-line officers free to respond to higher-priority calls. The program is intended to offer an efficient way to reduce the number of calls an officer need attend, as well as reduce the volume of calls received through the provincial communications centres.

Officer Compensation

Recommendation 6

To help inform future decisions on compensation levels for officers and as part of the preparation for future collective bargaining negotiations, the Ontario Provincial Police (OPP) should analyse the working conditions and compensation levels of its officers in comparison to other major police forces across Canada and in relation to current Ontario government compensation policies.

Status: Little or no progress.

The OPP should also increase its oversight of overtime expenditures as well as identify and address the underlying reasons for the significant increase in overtime costs in recent years.

Status: In the process of being implemented.

Details

The Ministry of Government Services negotiates salary rates with the Ontario Provincial Police Association, and the OPP provides analysis of compensation levels and working conditions to the Ministry of Community Safety and Correctional Services and to the Ministry of Government Services to identify opportunities to make policing services more cost effective. The current collective agreement expires December 31, 2014. OPP officers and civilians received no pay increases for 2012 and 2013, and for 2014 received an 8.55% increase in accordance with the collective agreement. The OPP indicated that while it supports the collective bargaining process, decisions on officers' compensation rates and benefits are decided by the ministries involved.

Since our 2012 audit report, there have been no changes to the collective agreement covering salaries and benefits of officers and civilians, or to those of senior management not covered by this agreement. The OPP has also not compared the salary and benefits provided to its officers and civilian workers to that of other Ontario government workers.

In addition, the OPP continues to rely on two types of quarterly surveys conducted by the RCMP of police officers' compensation across Canada. One survey looks at the hourly total compensation, which includes salaries, pensions and benefits, of the nine largest police services in Canada. The other survey looks at only the salaries of first-class constables for 85 police services across Canada that have 50 or more officers. As of March 31, 2014, the OPP ranked third among Canadian police forces at $72.17 in total compensation per hour. Only the Toronto Police Service ($75.08/hour) and the Vancouver Police Department ($72.74/hour) were higher. The OPP and Toronto Police Service rank fourth in annual salaries of first-class constables at $90,621.

On November 1, 2013, the OPP submitted a letter to the Ontario Association of Police Services Boards (OAPSB) and the Provincial Bargaining Work Group to support exploring co-ordinated bargaining for Ontario's police services, as proposed by the OAPSB and the ministries. Co-ordinated bargaining of upcoming collective agreements for separate police forces would be more efficient and would prevent police associations from benchmarking higher wage settlements of other police forces for use in future negotiations.

The OPP has lowered overtime expenditures by 27% ($14.1 million), from $52.8 million for the year ended March 31, 2012, to $38.7 million for the year ended March 31, 2014. To achieve these savings, the OPP imposed overtime constraints on all regions and bureaus. As previously mentioned, it also provided detachments with a new Time Information Management Report to help schedule officers and reduce overtime.

Municipal Policing

Recommendation 7

To promote better relations with, and consistent services to, municipalities, and fairer and more transparent billing processes, the Ontario Provincial Police, in conjunction with the Ministry of Community Safety and Correctional Services, the Ministry of Finance and municipalities, should:

- *seek ways to simplify, and make more transparent, its cost-recovery methods and consider whether various grants and credits should be amalgamated into one all-encompassing costing formula;*

  Status: In the process of being implemented.
- *address the issues in its costing and billing methods that result in municipalities paying different rates and consider phasing in cost increases over time rather than when contracts are renewed; and*

  Status: In the process of being implemented.
- *consider establishing a policy that would require identifying all costs for providing services to support municipal police forces as well as the proportion to be recovered.*

  Status: In the process of being implemented.

Details

To improve communication and accountability regarding the OPP's costing policies and processes, the Ministry of Community Safety and Correctional Services (Ministry) in August 2012 collaborated with the Association of Municipalities of Ontario, municipal representatives, the Ontario Association of Police Services Boards, and the OPP on a document called "Understanding OPP Municipal Policing Costs." The document provides municipalities with an explanation of the OPP's cost-recovery model, the tools the OPP uses to calculate policing charges to municipalities and what contributes to policing costs within their communities. The document has been updated twice on the OPP's website to reflect the most current cost-recovery formula used by the OPP.

The OPP has discussed with the Ministry whether various grants and credits for municipal policing services could be amalgamated into one all-encompassing formula, and several challenges have been identified. As of September 9, 2014, it had been decided that one grant—the Court Security and Prisoner Transportation Grant for OPP-policed municipalities—will be incorporated into the new OPP billing model beginning in 2016. The OPP told us it would continue to work with the Ministry to align other grants and credits with the new billing model.

All components within the municipal cost-recovery formula are now reviewed on an annual basis by the OPP's Business Management Bureau and the Municipal Policing Bureau to reflect the most updated formula. At the time of our follow-up, there were only seven municipalities remaining with contracts that did not permit the OPP to bill them under the most updated formula (compared to 36 in 2012). On December 12, 2013, the Ministry sent notice to municipalities with OPP policing contracts extending beyond January 1, 2015, that their current contract would be terminated on December 31, 2014, in accordance with the agreement that provided for early termination. As of January 1, 2015, all remaining contract and non-contract municipalities will have transitioned to a new billing model.

The Ministry and the OPP have been engaged in developing a new OPP Municipal Billing Model. On September 18, 2013, Treasury Board/Management Board of Cabinet (TB/MBC) approved that the Ministry work with the Ministry of Municipal Affairs and Housing (MMAH) to engage municipalities and stakeholders on the implementation of a new billing model for recovering the cost of OPP municipal police services, effective January 1, 2015. Since 2013, the OPP and the Ministry have engaged in consultations with municipalities and police services boards, as well as their associations, in the development of a new billing model.

On August 13, 2014, TB/MBC approved implementation of a new billing model. The model incorporates a 60% base cost and 40% variable costs, plus municipal-specific costs for overtime, accommodation and court security, to arrive at the total OPP municipal policing costs allocated to each municipality. The base cost includes the cost for officer availability to respond to calls for service, crime prevention, patrols, RIDE, traffic-safety initiatives, and infrastructure, and will be allocated to each municipality based on the number of households and business properties. The variable cost will be based on the cost of the OPP responding to calls for service within the municipality, and each municipality will receive a breakdown of their calls for service, allowing them to see what they are paying for. In addition, municipalities can request policing contract enhancements on a cost-recovery basis. The new model is intended to be revenue neutral for the province and the overall amounts collected from municipalities will increase over time as the OPP's costs increase. Any changes to the amounts that each municipality is charged resulting from the use of the new model will be phased in over five years, commencing with the 2015 contracts. In late September 2014, the OPP sent billing statements to all municipalities informing them of their new policing costs for 2015.

In our 2012 audit report we noted that the OPP is sometimes called on to assist municipal police forces, but it has never charged municipalities for these services. The OPP informed us that in recent years, a number of municipal police forces have been relying on the OPP on an as-needed basis for certain services, such as providing canine units. On May 14, 2013, as part of the 2013/14 Ministry's Results-based Planning, the TB/MBC approved the Ministry's request to explore options for an initiative to partially recover OPP support costs from municipalities that have their own police forces. The Ministry has reported back to the TB/MBC in its 2014/15 Results-based Planning that the cost of basic OPP policing services that support other municipal police services, such as for crime prevention, emergency response and filling in when local municipal police officers call in sick, is estimated at $4.1 million annually for the years ending March 31, 2015, 2016 and 2017. On June 25, 2014, the TB/MBC approved implementing cost recovery from municipal police services for the provision of basic OPP services. In addition, the OPP was to submit at a later date a proposal for recovering an estimated additional $7.9 million for providing specialized services, such as canine units, to certain municipal police services.

Use of Vehicles

Recommendation 8

To help adequately manage and control the use of vehicles, the Ontario Provincial Police should:

- *improve its record-keeping and other processes for tracking inventory and assigning vehicles and capturing personal-use mileage; and*
  Status: Fully implemented.
- *ensure that its processes result in compliance with tax laws that require that any significant personal use of vehicles be reported as a taxable benefit to the employee.*
  Status: Fully implemented.

Details

As of June 25, 2013, the OPP's Fleet, Supply and Weapons Services Bureau transitioned to a private service provider's web-based Garage Management System for assigning vehicles, monitoring locations and looking after vehicle manufacturer recalls. The private service provider, which is a vendor of record for the Ontario government, was already being used by the OPP to manage payments for maintenance, fuel and repairs for the fleet. A quarterly fleet vehicle reconciliation process was established in July 2013 that verifies the physical location of each fleet asset. The first quarterly reconciliation was completed in November 2013. Results of the reconciliation showed that out of a total fleet of 4,807 units, only the whereabouts of two small trailers could not be determined. These trailers have since been located.

In January 2013, the OPP changed its policy, and all employees with an assigned vehicle are now required to report their mileage through the taxable benefits mileage reporting system on the private service provider's website. The OPP has established new guidelines for employees' use and reporting of their personal use of OPP vehicles. The system can produce reports to allow the OPP to track the number of drivers assigned to vehicles and their reporting of personal mileage. The private service provider calculates the amount of taxable benefit and provides a record to the OPP for inclusion on employees' T4 slips.

Detachment Inspections

Recommendation 9

To ensure that detachments meet legislative and policy requirements for ensuring the security and integrity of seized cash, drugs and firearms, and detachment weapons, the Ontario Provincial Police should:

- *reassess its quality assurance processes and increase senior management oversight of results to identify ways to make inspections more effective, including the periodic use of surprise inspections to promote sustainable compliance; and*
  Status: Fully implemented.
- *make detachment commanders more accountable for ensuring that actions have been taken to correct any deficiencies noted.*
  Status: Fully implemented.

Details

Since spring 2014, the OPP has made changes to require reports from on-site detachment inspections carried out by its Quality Assurance Unit to include responses from detachment commanders about how they achieved compliance or why they did not, as well as any follow-up actions planned to address deficiencies. This change facilitates oversight by senior management, which requests further corrective action should the results and action planned be deemed unsatisfactory. When an inspection is completed, it is provided to the Provincial Commander Corporate Services and all deputy commissioners. The first provincial summary of detachment inspections is to be issued in January 2015.

Senior management also see the results of the Management Inspection Program, which is a self-assessment questionnaire completed by each detachment commander three times a year on whether the detachment is meeting the standards of the *Police Service Act* and the OPP's own policies, known as Police Orders. A summary term report and an annual summary report is forwarded to the Provincial Commanders of the OPP. Detachments are periodically checked for the accuracy of responses through the on-site detachment inspection process, typically every two to three years.

In February 2012, Police Orders were updated to include a mandatory requirement for each detachment to conduct a comprehensive audit of all vaults that hold seized firearms, drugs and cash during each calendar year. Detachments reconcile all the physical property in the vaults to the Records Management System to identify discrepancies. In addition, all vault officers are required to undertake new mandatory vault management training.

The OPP advised us that it does not support the use of surprise inspections of detachments, unless there are extraordinary circumstances.

Effective Policing

Recommendation 10

To help ensure that police resources are focused on the Ontario Provincial Police's key objectives for effective policing, the Ontario Provincial Police should:

- *improve the reporting to management on the community-oriented policing program and the results-driven policing program, and establish measures for assessing the effectiveness of these programs at individual detachments; and*
  Status: In the process of being implemented.

- *monitor average officer response times to calls for service for each detachment to ensure that adequate response times are achieved, particularly for higher-priority calls and during peak demand periods.*

  Status: Will not be implemented. (We continue to believe this is an important and valid recommendation.)

Details

The OPP is continuing to implement its new community-policing model, the Mobilization and Engagement Model of Community Policing, which was introduced in 2010. The model includes regular meetings and communications between a committee of local citizens and members of the local detachment, during which the group would deal with local concerns about such issues as crime and traffic. The goal of the model is to improve community safety and to involve the community in crime prevention.

The Detachment Commander Advisory Committee, an informal advisory committee consisting of the detachment commanders from each of the five regional headquarters and the Highway Safety Division, has been established to guide the implementation of the model. The first meeting was held in October 2013 and the committee meets quarterly. Since 2010, however, the OPP still has not initiated any action to develop measures to assess the effectiveness of the program and processes to capture and report results.

In spring 2014, the OPP's Crime Prevention Section developed a Community Mobilization Planning template to support detachment commanders in identifying priorities, establishing partnerships in the communities and developing action plans. Detachment commanders are being asked to complete templates for issues identified, action taken and results so that they can be reviewed and shared to develop an inventory of case studies of best practices. As of September 30, 2014, seven case studies had been received. The OPP has provided detachments with training and supporting information on its intranet, and was developing a training video to be available by December 2014.

We were advised that the community-policing model has been implemented throughout the province at each detachment. The OPP was planning to conduct a survey to assess the knowledge and implementation of the model in autumn 2015.

The OPP's Results-Driven Policing Accountability Framework is designed to improve community safety through targeted crime and traffic-enforcement initiatives. Using the framework, detachments and regional headquarters collect and analyze statistics on rates of certain crimes and the numbers of road-related fatalities and injuries, and target police resources to address problem areas. The OPP advised us that it has not established targets for detachments to measure their results and compare them with other detachments, and said the framework is used for identifying and responding to issues quickly, rather than as a benchmark to compare detachments and regions. The success of the program continues to be assessed at monthly and quarterly regional meetings, where results are compared with previous periods for individual detachments. A province-wide evaluation of the use of the Results-Driven Policing Accountability Framework was underway as of June 30, 2014, and was expected to evaluate its effectiveness, determine whether program objectives were being met, establish the most effective means of using and sharing data, and provide recommendations for short-, medium- and long-term strategies. A report to senior management was expected in fall 2014.

In our 2012 audit report, we noted that the OPP did not monitor response times, such as the time from when a call is received by one of its regional communications centres and when an officer arrives on the scene. While in our 2012 report we noted that the OPP had compiled an informal sample of average response times for one regional communication centre in 2011, it has not taken any further action to monitor response times. We were advised that the OPP continues to believe that monitoring response times and possibly establishing targets is problematic, due to significant geographic differences among detachment areas across the province. In addition, the OPP noted that monitoring response times is not a current function of its computer-aided dispatch system. We disagree with the OPP, since the timely response to calls for service is imperative for police services, and senior managers should monitor this to ensure that an acceptable level of service is provided.

Information Systems

Recommendation 11

To help ensure that its two key information systems contain accurate information that can be reliably used for managing and reporting on its policing activities and on crime and traffic occurrences, the Ontario Provincial Police should:

- *assess the extent to which the Records Management System and Daily Activity Reporting systems do not reconcile with each other for critical data such as occurrences and calls for services;*

  Status: Will not be implemented. (We continue to believe this is an important and valid recommendation.)

- *consider whether periodic supervisory approval of officers' daily or weekly data input would help minimize inconsistent and inaccurate data between the two systems; and*

  Status: Will not be implemented. (We continue to believe this is an important and valid recommendation.)

- *on a longer-term basis, assess the cost/benefit of system changes that would enable officers to enter information such as occurrences and calls for service only once to update both systems.*

  Status: In the process of being implemented.

Details

In our 2012 audit, we noted significant discrepancies between the Records Management System (RMS) and Daily Activity Reporting (DAR) systems, both of which are used by officers on a daily basis to record their activities. For instance, there were 635,000 calls for service in the DAR for 2011 and approximately 815,000 occurrences reported in the RMS. The RMS tracks occurrences, such as those resulting from calls for service, and permits analysis of case-related information, such as types of crime committed, location, people and property involved, witness statements and officers' notes. Officers are required to update the RMS after each occurrence. The DAR is, primarily, a time-accounting system that tracks an officer's regular and overtime work hours, the number and types of calls for service to which an officer responds, and how much time each officer spends on activities such as traffic patrol, investigations and administration. Officers are required to update the DAR daily. The general view among the officers we spoke to for our 2012 audit was that the occurrences data from the RMS was more reliable than the calls-for-service data in the DAR; however, it is the DAR data that is published in the OPP's annual reports and used for staffing deployment models. At the time of our audit follow-up, the OPP had neither addressed the differences we noted in our 2012 audit report nor put in place plans to reconcile the information between the two databases. As a result, the OPP has increased its risk with respect to the accuracy and reliability of its published information, and the usefulness of its activity-based information for decision-making.

The OPP advised us that it had decided not to establish a new requirement that supervisors periodically approve officers' daily or weekly data input, to ensure greater accuracy, since it would be a time-consuming process for supervisory resources that are already fully tasked. The OPP plans to continue its practice of requiring supervisor approval when officers record overtime hours and to ensure weekly that officers have updated the DAR, but they do not check or approve the officer's data entries. The OPP noted that it recently expanded the use of civilian staff to enter data for officers into the RMS and this should result in improved data entry because the civilian staff is directly supervised.

The DAR, which was developed in-house, was implemented in 2000. In July 2012, the OPP approved a project to update or replace the DAR during the period from 2014 to 2016 to meet current and future OPP requirements. The RMS that was purchased in 2000 from a vendor is currently used by the OPP and more than 100 other police services. The OPP advised us that it plans, depending on the technical difficulty, to link the DAR and RMS systems so officers will not have to enter data twice.

Performance Measurement and Reporting

Recommendation 12

While the Ontario Provincial Police provides good information on crime rates and its activities and services, additional information to enable the public to assess its cost effectiveness and operational efficiency is needed.

Status: Little or no progress.

It should also periodically and independently survey community residents who have had recent contact with the force to determine their satisfaction with the service they received.

Status: Fully implemented.

Details

In its 2012 annual report, the OPP for the first time included information on its costs for providing municipal police services on both an average per capita basis and a per household basis. However, the OPP still does not report information that would help assess its efficiency in all activities. For example, it does not report actual results and targets for the average times its communications centre takes to respond to emergency calls; officers' time lost due to illness; and the time its officers spend on calls for service and administrative duties. The OPP advised us that efficiency measures and targets are not published in its annual report because that is not required by legislation.

The results of the OPP's annual Provincial Community Satisfaction Survey were posted on its website for the first time after the 2012 survey. The 2013 Provincial Community Satisfaction Survey included responses to several questions specific to residents who had contact with the OPP over the last year for such things as motor vehicle collisions or traffic stops, property crime or violent crime incidents. The OPP advised us the 2015 survey will allow respondents who were dissatisfied with their contact with the OPP to provide an explanation of their concern.

Chapter 4 Ministry of Finance

Section 4.10 Tax Collection

Follow-up to VFM Section 3.11, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3		3		
Recommendation 2	4	2	1	1	
Recommendation 3	1	1			
Recommendation 4	1	1			
Recommendation 5	1		1		
Recommendation 6	1	1			
Total	**11**	**5**	**5**	**1**	**0**
%	**100**	**45**	**45**	**10**	**0**

Background

Taxes are the province's largest source of revenue. While the majority of taxes are collected through voluntary compliance, the Ontario Ministry of Finance (Ministry), through its Collections Branch (Branch), is responsible for collecting a significant portion of the unpaid taxes owed to the province. To collect unpaid taxes, the Branch sends notices by mail, contacts taxpayers by phone and sometimes visits in person. If taxes remain unpaid, collectors can use garnishments, register personal and real property liens, obtain warrants for the seizure and sale of taxpayers' property, and exercise securities held by the province such as a letter of credit.

At the time of our 2012 audit, approximately 90% of the taxes owing that the Collections Branch was responsible for collecting related to Corporations Tax and Retail Sales Tax. The Canada Revenue Agency (CRA), which is responsible for collecting personal income tax on behalf of the province, also began administering Corporations Tax on behalf of the province in January 2009. Similarly, in July 2010 the Harmonized Sales Tax, also administered by the CRA, replaced the provincial Retail Sales Tax. As a result, about 75% of the Branch's staff of almost 400 were transferred to the CRA in March 2012. However, the Ministry remained responsible for collecting Corporations Tax and Retails Sales Tax amounts owing prior to the transfer of the administration of these taxes to the CRA.

In the 2011 Ontario Budget, the government proposed centralizing the collection of all government non-tax revenue within the Ministry. Under this proposal, the Branch would continue to collect the taxes that it administers, but would also become responsible for collecting non-tax revenue on behalf of other provincial ministries.

At the time of our 2012 audit, the Ministry of Agriculture, Food and Rural Affairs was the first ministry scheduled to transfer the collection of its non-tax receivables to the Ministry of Finance. In the 2013/14 fiscal year, the Ministry of Finance signed agreements with several other ministries to collect more than $1 billion of outstanding non-tax debt on their behalf. The Branch currently collects over 85% of all non-tax debt outstanding, and it expects this to increase to about 98% by 2015.

We noted in our *2012 Annual Report* that, although some write-offs are to be expected in any collection process, the Ministry expected to write off up to $1.4 billion of the $2.46 billion in taxes owing to the province that the Branch was responsible for collecting as at March 31, 2012. Of the $1.4 billion, $772 million was written off as of March 31, 2014. Another $273 million was still in bankruptcy and insolvency. The remaining $361 million was near the end of the collection cycle and was likely to also be written off, in light of the age of the accounts. Since the $1.4 billion was an amount predominantly made up of older accounts that had accumulated over a number of years, it had been previously expensed in the government's financial statements.

To understand why the Branch needed to write off such a significant amount of taxes owed, we examined the collection process both for active accounts and for those accounts the Branch was considering writing off. We found that, in most of the cases we reviewed, timely collection actions had not been taken and the enforcement tools available were not fully utilized. Some of our significant observations were as follows:

- Taking prompt action is vital in collecting debts. Research shows that the probability of full collection on a delinquent account drops dramatically as time passes. We found that once an account entered collections, it took an average of seven months for collectors to attempt to reach the taxpayer by phone. We also noted that in more than two-thirds of the cases in our sample, there was at least one instance where no collection action was taken for six months or more.
- Visiting a taxpayer's premises often increase the likelihood of collecting what is owed. Field visits were warranted but had not been made in a number of the accounts that we reviewed. For example, the Branch tried unsuccessfully for nearly two years to reach by phone a taxpayer who owed $100,000 in Retail Sales Tax and had broken a payment arrangement, but made no visit.
- The Branch appropriately registered liens and warrants on properties, but in a number of cases that we reviewed, it then failed to enforce the liens and warrants for the seizure and sale of those properties.
- The Branch may arrange interim payment plans if a taxpayer has outstanding returns to file or needs time to determine a permanent payment arrangement. Payment arrangements were in place for almost half of the accounts that we reviewed. However, for many of these accounts and contrary to the Branch's guidelines, multiple interim payment arrangements that covered only a small portion of total debt had been in place for extended periods.
- The Branch did not always make full use of its partnerships and information-sharing agreements with third parties. For example, it may seek to have a delinquent taxpayer's motor vehicle dealer registration or liquor license suspended or revoked. We noted cases where

the Branch did not request such action on a timely basis, or at all, after normal collection efforts had been exhausted.
- At the time of our 2012 audit, the responsibility for administering Corporations tax and Retail Sales Tax had just been transferred to the Canada Revenue Agency (CRA), but responsibility for collecting the amounts owed to the province prior to the transfer remained with the Branch. As a result of the transfer, the Branch lost three-quarters of its workforce, including managers, collectors and support staff. Collectors' caseloads had in many cases doubled and in some cases tripled. At the time of our audit, the Branch had not fully evaluated its post-transfer staffing needs and, as a result, no additional staff had been brought onboard.
- In order to oversee collection activities effectively, managers should have access to sufficient and timely operational and performance information. However we found that reports produced by the Ministry's information system did not adequately support the oversight of the collection function. The Collections Branch's performance measures were also not sufficient to properly evaluate collection efforts at the Branch level and at the individual collector level.

We made a number of recommendations for improvement and received commitments from the Branch that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

The Ministry of Finance (Ministry) provided us with information in the spring and summer of 2014 on the actions it had taken to address our recommendations. According to this information, the majority of the recommendations we made in our *2012 Annual Report* have been fully implemented or are in the process of being implemented. For example, the Branch had refined its risk-assessment methodology to better prioritize accounts for collection action, had issued guidelines for collectors to manage and complete their assigned work according to account priority, and had made much greater use of information from the Canada Revenue Agency to assist in collection efforts. The Branch had also established new benchmarks to better track the effectiveness of its collection efforts, and a scorecard that it planned to use to benchmark itself against similar organizations in other North American jurisdictions.

Other recommendations have required more time to be fully addressed, such as ensuring that warrants for the seizure and sale of property are enforced. More work is also needed to ensure that the Branch carries out field visits on a timely basis.

The status of the actions taken on each recommendation is described in more detail in the sections that follow.

Collections Process

Overview, Collection Activities, Use of Third-party Information, Out-of-province Accounts

Recommendation 1

To maximize the recovery of amounts owing, the Ministry of Finance Collections Branch should:

- *make initial contact with delinquent taxpayers sooner and carry out follow-up efforts, including field visits in a more continuous and timely manner;*

  Status: In the process of being implemented.

- *make better use of all available collection and enforcement tools, including partnership and information sharing agreements with other parties; and*

  Status: In the process of being implemented.

- *continue to consider options; including obtaining any legislative authority that may be needed to allow it to initiate legal actions to collect debts from businesses and individuals residing outside the province.*

Status: In the process of being implemented.

Details

As seen in **Figure 1**, between April 1, 2012, and March 31, 2014, the Branch collected approximately $1.2 billion in unpaid taxes. As of March 31, 2014, the total amount of the taxes owing that the Branch was responsible for recovering was $1.94 billion, down from $2.47 billion in 2012. However, of the $1.94 billion, the Branch estimates that $908 million will likely be written off. The Branch considers the remaining $1.03 billion to be active and is focusing its collection efforts on it.

The Branch instituted a best practice in March 2013 that required all taxpayer accounts to be contacted by telephone within 30 days of their initial assignment to collections. According to statistics the Branch provided for the 2013/14 fiscal year, contact within 30 days occurred about 70% of the time. If the balance was not fully collected, secured by liens and warrants, or under an active payment arrangement, the best practice required subsequent calls to be placed every six months. Although the best practice should call for shorter intervals between follow-up calls, we noted that collectors were following up well within the six-month period for the sample of accounts that we looked at.

We also noted that field visits have decreased significantly over the last three fiscal years. In 2011/12 (at the time of our 2012 audit), the Branch carried out more than 2,500 field visits. In the fiscal years 2012/13 and 2013/14, the average number of field visits had decreased to about 60. This decrease was mainly due to the elimination of the field services unit in 2012 (discussed in more detail in the following section).

In October 2013, the Branch conducted a study to assess the benefits of field visits. It made field visits to a sample of accounts and compared the results to a sample for which only desk-collection activities were performed. The Branch found that both methods yielded net positive benefits considering the total costs associated with each. In March 2014, the Branch revised its best practice on field visits. It now considers making a field visit in the following circumstances:

- The account balance is $1,000 to $50,000 (previously $50,000 or higher and only if the account was deemed high-risk). The Branch found in its study that field visits were most successful for collecting amounts within this range. However, field visits for accounts greater than $50,000 can still be undertaken if considered beneficial;
- The account is less than 180 days old; and
- The client has been unresponsive to previous requests for payments or has broken payment arrangements.

At the time of our follow-up, the Branch was reviewing whether a more prescriptive approach to enforcing warrants (i.e. automatically enforcing them under specific circumstances rather than leaving it up to the judgement of individual collectors) should be taken, and how such an approach might impact taxpayers' businesses and their ability to pay outstanding amounts. The Branch expected to make a decision on the basis of its review by March 2015.

In our *2012 Annual Report*, we noted that the Branch did not make full use of the avenues available to it through its partnership agreements. For example, in several cases where taxpayers held a motor vehicle dealer registration issued

Figure 1: Uncollected Taxes Owed as at March 31, 2012 (at the time of our audit) and March 31, 2014 (at the time of our follow-up) ($ million)

Source of data: Ministry of Finance

Uncollected taxes owed as at March 31, 2012	**2,468**
Write-offs in 2011/12 and 2012/13 fiscal years	(772)
Amount of taxes owed since collected	(1,227)
New accounts	1,472
Uncollected taxes owed as at March 31, 2014	**1,941**

by the Ontario Motor Vehicle Industry Council (OMVIC) or a liquor license issued by the Alcohol and Gaming Commission of Ontario (AGCO), the Branch did not contact OMVIC or AGCO to have these revoked on a timely basis, or at all, after normal collection efforts had been exhausted. The Branch also needed to make better use of information that the Canada Revenue Agency (CRA) has on delinquent taxpayers for identifying their other sources of income.

Since our 2012 audit, the Branch has been cross-referencing all accounts where taxpayers hold a motor vehicle dealer registration or a liquor license to OMVIC/AGCO reports, to ensure that the information the Branch has on file is current. These reports are to be requested quarterly to ensure that information on any decisions to revoke dealer or liquor licences remains current.

To assist with collection, the Branch has made a greater effort to request information from CRA on delinquent taxpayers. Between April 1, 2013 and March 31, 2014, the Branch made 1,648 requests for information to CRA—significantly higher than its historical five-year average of 69 requests annually. The information requested included addresses, telephone numbers, banking information, employment details, and details on assets and investments. The Branch reviewed a sample of accounts and noted that CRA was able to provide information on more than half of the items that collectors requested, and that this information helped the Branch's collection efforts in many cases.

At the time of our 2012 audit, more than $320 million in taxes was owed by individuals and businesses whose mailing addresses were outside Ontario. In February 2013, an interprovincial working group of finance officials was formed. The group presented possible options for collecting out-of-province debts at an Interprovincial Territorial Tax Conference in September 2014, and there was support for the initiatives presented.

Staffing

Recommendation 2

To mitigate the impact of the significant loss of its staff to the Canada Revenue Agency, the Ministry of Finance's Collections Branch should:

- *ensure that temporary staff hired to compensate for the loss continue to have the appropriate skill set and experience to carry out collection duties effectively;*
  Status: Fully implemented.
- *reassess whether senior collectors, in addition to their regular responsibilities, will be able to carry out required field visits effectively and on a timely basis, and attend hearings for the possible suspension of liquor and motor vehicle dealer licenses, especially given their recent significant increase in caseloads; and*
  Status: Little or no progress.
- *evaluate the use of private-sector collection agencies for certain aspects of its collections function.*
  Status: In the process of being implemented.

In the longer term, the Branch should assess whether its current permanent staff complement is sufficient to maximize the collection of non-tax receivables.
Status: Fully implemented.

Details

At the time of our follow-up, the Branch had about 60 collectors and insolvency officers dedicated to the collection of tax accounts. While this complement has remained consistent since the time of our 2012 audit, the average caseload of each collector has decreased by 36%. This was mainly because the total inventory of accounts had decreased since the time of our 2012 audit, by 46%. The caseload per collector was close to what the Branch considered optimal, and it advised us that it would monitor the caseloads on a monthly basis to ensure that they remained close to that level.

By May 2013, collectors had received an average of 18 days of training (through formal workshops, online training, job shadowing and self-directed study) on all aspects of the collection function.

We noted in our *2012 Annual Report* that the Branch had eliminated a dedicated unit of eight field officers who supported its desk collectors by visiting businesses and residences to review clients' records, inspecting and appraising assets, and, in some cases, negotiating payment arrangements. The field officers were also responsible for attending AGCO and OMVIC hearings for the possible suspension of licenses when taxes were in arrears or returns were not filed. Their responsibilities were transferred to senior collectors, whose caseloads had in many instances already increased significantly. This prompted us to recommend that the Branch reassess whether senior collectors, in addition to their regular responsibilities and given the significant increase in their caseloads, would be able to carry out required field visits effectively and on a timely basis, plus attend AGCO and OMVIC hearings.

As we have already noted in the previous section, since our 2012 audit, collectors' caseloads have decreased overall, which would create more opportunity to conduct field visits. However, there has still been a significant drop in field visits since 2012. According to the Ministry, field visits have historically been performed on retail sales tax accounts, and as the inventory of these accounts continue to age, the likelihood of field visits resulting in a reasonable return on the investment will decline.

In our 2012 audit, we noted that while other Ontario ministries used private agencies to collect non-tax debt, the Branch did not outsource any part of its collection function. A 2009 external review of the Branch's operations suggested that the Ministry evaluate the use of private-sector collection agencies. Similarly, a study conducted by an inter-jurisdictional tax operations network, co-founded by the Branch, found that some North American jurisdictions surveyed had outsourced some of their collections as a means of increasing their efficiency (for example, on low-value accounts, accounts located outside the jurisdiction and accounts where internal collection efforts had yielded minimal results). We recommended that the Branch evaluate the use of private-sector collection agencies for certain aspects of its collections.

At the time of our follow-up, the Branch was not outsourcing any of its tax collection function to the private sector. In 2013, it completed a survey of 14 jurisdictions in North America on their use of private collection agencies. Half of the jurisdictions had used private collection agencies to collect outstanding debts. Based on these results, the Branch is considering piloting the use of private-sector agencies to collect outstanding tax debt by June 2015. The Branch noted that it must seek appropriate approvals before it may use outside firms.

As part of a broader review of the collections program, an external consulting firm retained by the Ministry of Finance reported in February 2014 that the Branch's current complement of tax and non-tax collectors was sufficient to address all new referrals (tax and non-tax) in a timely fashion, and work the existing tax portfolio to completion by the second quarter of 2015/16.

Account Prioritization

Recommendation 3

To ensure the effectiveness of its risk-ranking methodology for prioritizing collection efforts, the Ministry of Finance's Collections Branch should formally assess this methodology to determine whether it is ranking accounts for action appropriately and consistently. The Branch should develop guidelines to encourage collectors to use the risk scoring to prioritize their work.

Status: Fully implemented.

Details

In our *2012 Annual Report*, we noted that the Branch had a risk-scoring method that it used to prioritize accounts in OntTax (the Ministry's system for administering various tax statutes) according to criteria such as the amount owing, number of times or the length of time the account has been in collections, whether there is a history of broken promises, and if any legal actions have been taken on the account. Once an account's priority was established, it was assigned to collectors in one of three tiers: Tier 1 (low-risk), Tier 2 (medium-risk) or Tier 3 (high-risk). However, we noted that once accounts were assigned, collectors often did not use the risk-ranking to determine the order in which they worked on the accounts. Also, the Branch had not updated or formally evaluated its risk-scoring methodology since it was developed in 2008. We noted several anomalies in the scoring that indicated a need to review and update the criteria so that collectors could make better use of this tool.

Since our 2012 audit, the Branch has reviewed OntTax's risk-scoring methodology and added a "time since last payment" criterion to better prioritize accounts. The Branch also made several adjustments to the way the existing risk criteria were scored. For example, we noted in 2012 that inconsistent collection practices affected the score assigned to accounts. For instance, the system assigned points to an account every time a notice was sent out, and because some collectors sent out more notices, some accounts were assigned more points (creating a higher risk-score), depending on which collector worked on them. At the time of our follow-up, the Branch had addressed this anomaly by no longer assigning points to multiple letters relating to the same collection action.

At the time of our follow-up, the Collections Branch had also issued guidelines to collectors instructing them to prioritize their assigned work according to the risk scores assigned by OntTax, unless directed otherwise by their managers.

Oversight of Collection Activities

Recommendation 4

To ensure that collection efforts are appropriate, timely and in compliance with established procedures, the Ministry of Finance's Collections Branch should ensure that collectors document any follow-up action taken in resolving issues identified during reviews of their work. The Branch should also identify any systemic concerns, as well as best practices, from its ongoing reviews of active files as well as accounts that are submitted for write-off.

Status: Fully implemented.

Details

In our *2012 Annual Report*, we noted that managers had identified issues in their semi-annual performance reviews of collectors, such as the timeliness of collection actions, incomplete documentation and failure to use all available tools in the collection effort. Although the managers informed us that they had discussed these issues with the collectors, we found no evidence of any required action or follow-up to ensure that staff were making the required changes. We also noted that there was no overall analysis or related feedback on any systemic concerns identified through either managers' reviews or the Branch's review of accounts submitted for write-off.

Since then, collection managers have started to stagger their reviews and select accounts on a bimonthly basis instead of semi-annually to evaluate collector performance. After a review, managers re-visit the accounts to determine whether the collector has performed the required follow-up or implemented the manager's recommendations. Systemic concerns arising from manager reviews and Branch reviews of write-offs are discussed with staff and are a standing agenda item in the Branch's management meetings.

Management Reports

Recommendation 5

In light of the fact that the OntTax system will continue to support the collection and administration of the remaining tax statutes, as well as the collection of the province's non-tax amounts owing if the Branch's role is expanded, the Ministry of Finance's Collections Branch should work with ministry systems staff to ensure that the system reports provide complete, accurate and up-to-date information on debtors' accounts.

Status: In the process of being implemented.

Details

In our *2012 Annual Report*, we noted problems with accounts that had migrated to OntTax from an older system in 2008. The Branch could not determine the portion of these "legacy" accounts that had been secured by liens or warrants, and payment plans for them often did not cover the total amount of the debt owing, although OntTax reported the total amount of the debt as being covered by the plan. As a result, OntTax was not providing an accurate picture of the tax-receivable inventory that was secured by payment plans. It also did not provide details such as the number, amount and frequency of instalments associated with individual payment plans.

In April 2014, the Branch analyzed the over 2,500 accounts that had been migrated from the older system to OntTax and determined that they were all secured by liens and warrants. In addition, as of January 2014, OntTax reports only the portion of the tax-receivable inventory that is covered by payment plans. The Branch has identified other system enhancements that can be made to OntTax, which it plans to complete by December 2014.

Performance Measures

Recommendation 6

To enable it to better track the effectiveness of its collection efforts, the Ministry of Finance's Collections Branch should have more clearly defined benchmarks and performance measures for collection, both for the Branch itself and for individual collectors. The outcomes should be tracked, evaluated against established benchmarks and reported periodically.

Status: Fully implemented.

Details

At the time of our follow-up, the Branch had instituted two new measures: the percentage of debt that was less than one year old, and the percentage of accounts receivable collected. The Branch has also introduced regular forecasting of accounts receivable, dollars collected, number of accounts and write-offs. Variances are reported and explained to the Branch Director on a monthly basis.

Beginning in 2013/14, individual collectors' performance plans included measures such as initial phone calls taking place within 30 days of account referral to collections, the number of accounts with no activity within 180 days, and liens and warrants registered on accounts within 90 days. For accounts that are in bankruptcy or insolvency, the Branch also introduced total monthly activity (i.e., total number of calls, searches, etc.) as a new performance measure for collectors.

In March 2013, a consulting firm completed its development of a scorecard for the Branch and its individual collectors. The scorecard measures the following:

- recovery rate;
- cost to collect $1;
- write-offs as a percentage of accounts receivable;
- percentage of accounts with payment arrangements; and
- number of days that receivables are outstanding.

The scorecard is produced on a quarterly basis, and the Branch intends to use it to benchmark itself against similar organizations.

Chapter 4

Section

4.11

Ministry of Training, Colleges and Universities

University Undergraduate Teaching Quality

Follow-up to VFM Section 3.12, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4	1/3	2	1 2/3	
Recommendation 2	2	1	2/3	1/3	
Recommendation 3	1		1		
Recommendation 4	2		2/3	1 1/3	
Recommendation 5	2		2		
Total	**11**	**1 1/3**	**6 1/3**	**3 1/3**	**0**
%	**100**	**12**	**58**	**30**	**0**

Note: The fractions in some cells result from recommended actions being implemented to different degrees by the three universities we audited. We rounded the results to the nearest percentage point.

Background

In 2010/11, Ontario's 20 publicly assisted universities had the equivalent of about 390,000 full-time students eligible for provincial funding. These universities employed about 15,000 full-time faculty, including tenure-stream staff with teaching and research responsibilities, teaching staff with no research responsibilities and part-time sessional instructors under contract.

The Ministry of Training, Colleges and Universities (Ministry) expects that 70% of all new jobs will require education and training beyond the high school level, and its goal is to have 70% of Ontarians attain post-secondary credentials by 2020.

From the Ministry's perspective, a university's most important mandate is that it does a good job of teaching its students and preparing them for the future workforce. We believe students, their parents and the public would agree.

The deans and faculty or department heads we spoke to at the three universities we visited told us that it is not easy to quantify and assess undergraduate teaching quality. Nevertheless, most felt that measures could be developed to offer insight into teaching quality.

Although neither the Ministry nor the universities we visited were formally assessing or reporting on teaching performance on a regular basis, we found information was available that could be used to do so. For instance, all Ontario universities encourage students to complete formal evaluations of each course they take. However, we found that little aggregate analysis of the student evaluations was done at the universities we visited. Only about a quarter of Ontario's universities indicated that they make the summarized results of these evaluations available to students to help them choose their courses.

All three of the universities we visited had put some processes in place to improve teaching quality, including establishing teaching centres and giving consideration to teaching performance when making decisions on promotions and tenure. However, in 2012, we noted that universities need to better ensure that teaching quality is valued, encouraged and rewarded. Our key observations at that time were as follows:

- A number of faculty told us their annual performance appraisals did not provide them with appropriate feedback on teaching performance. We noted examples where student evaluations had been critical of teaching performance, but there was no evidence that specific guidance was provided or that faculty members had sought assistance to improve their teaching skills. None of the universities we visited required that written performance appraisals be provided to sessional instructors, even though these people accounted for 10% to 24% of full-time-equivalent staff.
- Ontario universities in general do not require faculty members to have formal training in teaching. Records at the teaching and learning centres of two of the universities we visited showed that faculty attendance at teaching workshops averaged less than one hour per instructor per year. At one university, student course evaluation results showed the education faculty consistently outperformed other faculties in overall teacher effectiveness ratings. Interestingly, we were told that virtually all members of this faculty had formal training in teaching methods.
- The Ministry is making progress toward achieving its goal of having 70% of Ontario's population hold post-secondary credentials by 2020. However, although 94% of students were employed two years after graduation, only 65% of graduates surveyed by the Ministry in 2010/11 were employed full-time in a job that was related to the skills acquired in their studies. The Ontario Undergraduate Student Alliance indicated to us that students would find information on graduate employment outcomes beneficial in choosing their university and program of study.

We made a number of recommendations for improvement and received commitments from the Ministry and the universities we visited that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

According to information received from the Ministry and the three universities we visited, progress has been made on implementing most of the recommendations in our *2012 Annual Report*, which were aimed at strengthening efforts to maintain and enhance teaching quality. As one university we visited had recently concluded from its own study, the design of meaningful goals, the skill of the instructor and proper course preparation were more important contributors to quality than class size alone. While a few of our recommendations have been fully implemented by at least one university visited in 2012, others will take more time. Of note, one university made progress in implementing an online course evaluation system, and the results were available to most students to help them make more informed decisions on course selection. All three universities also noted that professional development opportunities for faculty had increased since the time of our audit. However, further progress needs to be made in evaluating the use and performance of sessional instructors.

The Ministry also started collecting additional data as part of the Ontario University Graduate Survey, and had started to publish additional results, including results on the level of education needed in the jobs graduates were working in, an assessment of how closely the job related to their program of study, whether graduates were working full time and their annual salaries. However, while the availability of these additional results was a step in the right direction, such data was only published at an aggregate provincial level and was not made available at the university or program level to help students to make more informed decisions on university and program selection. Efforts to develop learning outcome measures were ongoing through the Higher Education Quality Council.

The status of actions taken on each of our recommendations is described in the following sections.

Procedures to Assess Teaching Quality

Recommendation 1

To help ensure that administrators and students have sufficient information to make informed decisions, and that all faculty members receive the necessary feedback to maintain or enhance teaching quality, universities should:

- *consider means to aggregate student course evaluation information at the university, faculty and department levels so that administrators can identify best practices and areas requiring attention;*

  Status: Universities 1 and 2: In the process of being implemented.

  University 3: Little or no progress.

Details

University 1 has been implementing an online course evaluation system designed to aggregate and compare evaluation results, as well as provide information to identify areas that need attention. The university's system produces statistics and aggregated student evaluation results comparing the scores on core institutional questions for individual course instructors with divisional and departmental averages. We were advised that the report is shared with both instructors and administrators. Further, the results allow administrators to compare results across divisions. Although the university did not indicate that course evaluation data had been used to identify and share best practices in teaching, we were provided with documentation from the university's teaching and learning centre that suggested ways to improve teaching.

At the time of our follow-up, approximately 80% of all students at this university were enrolled in divisions that had implemented the online course evaluation system. We were informed by this university that discussions were taking place about implementing the system across the rest of the university, and that the university planned to have the course evaluation system implemented in the remaining divisions as resources become available.

At the time of the 2012 audit, University 2 had an online course evaluation system with standardized questions for all undergraduate courses from which it aggregated data. The aggregate data is used to support curriculum reviews, as well as the tenure and promotion processes. The university has subsequently established a university-wide committee, chaired by representatives from each faculty, tasked with examining all aspects of teaching and learning with the goal of improving the student experience.

Administrators at University 3 did not have aggregate course evaluation data, and during our audit in 2012, we could not review course evaluation data because the university's collective agreement with faculty stipulated that evaluations were the property of the instructor. However, the university has set aside funding and begun developing an online course evaluation system that would allow it to obtain aggregate student evaluation data. The university plans to implement this system in 2015/16, but noted that implementation of this tool is contingent upon negotiations with, and approval by, faculty.

- *develop a core set of student course evaluation questions to be used throughout the university to facilitate comparison of student evaluation results;*

  Status: University 1: In the process of being implemented.
  University 2: Fully implemented.
  University 3: Little or no progress.

Details

University 1 had created a course evaluation with eight questions that will eventually appear on all the university's course evaluation questionnaires. The questions are intended to measure the overall quality of the student learning experience and professor instruction. In addition, divisions, departments and instructors may add questions based on their own needs. This university also publishes separate guides on how to create questions and use results data from evaluations to improve both instruction and administration.

In 2012, we noted that University 2 had already developed and was using a common questionnaire through an online system and it continues to use this.

University 3 identified that along with the development of an online course evaluation system, a set of core course evaluation questions were being investigated, and preliminary institution-wide questions had been developed. We were advised that core questions along with an online course evaluation system were expected to be rolled out across the university by 2015/16, but the implementation of this tool is contingent upon negotiations with, and approval by, faculty through the collective bargaining process.

- *provide students with the summarized results of student course evaluations to assist them in making informed decisions on course selection; and*

  Status: University 1: In the process of being implemented.
  Universities 2 and 3: Little or no progress.

Details

While instructors at University 1 can opt-out of publicly sharing their course evaluation data, we were advised that in divisions where such data is available, 96% of instructors chose to allow students to view course evaluation results. Nevertheless, while only a small percentage of faculty members chose not to release their course evaluation data, we were informed that this still affects 15% of the student population in these divisions.

University 2 chose not to provide students with summarized results of student course evaluations. This university indicated it did not believe the results of course evaluations would assist students with their course selections. The university was concerned that posting results could lead to students punishing instructors who challenge their students, teach complex, difficult or controversial material, or grade more rigorously. The university also noted that it would look for other ways to help students make informed choices, such as posting more detailed course information.

University 3 would like to provide the results of student course evaluations to help students make more informed decisions, but its collective agreement with faculty stipulated that evaluations were the property of the faculty member and students were not given access to them. This university advised us that this status had not changed.

- *ensure that faculty, including sessional faculty, periodically receive constructive feedback on their teaching effectiveness, and encourage faculty to undertake any necessary professional development.*

  Status: Universities 1 and 2: In the process of being implemented.
  University 3: Little or no progress.

Details

During our 2012 audit, we noted that faculty members at University 1, with the exception of sessional instructors, received annual performance evaluations. During our follow-up, we were advised that although sessional instructors still do not receive annual performance evaluations, those that teach on a regular basis are evaluated at the time they are considered for promotion to Lecturer II or III status. As well, during our audit we noted that student comments recorded on course evaluations were not generally reviewed by administration, and that administration often evaluated only one question on the student course evaluations that asks about overall performance. However, the university indicated that it has now fully implemented a policy that specifically states that administrators are responsible for reviewing quantitative and qualitative course evaluation data as one component of these assessments.

During our audit, we found that all faculty members at University 2 are to receive an annual performance evaluation, although there was still no requirement that sessional staff be evaluated. The university indicated that it planned to include considering such an evaluation requirement in its upcoming collective bargaining with faculty. Although the university was not able to demonstrate that it had a process in place to formally encourage professional development, the university had enhanced its tracking of faculty professional development and found that more than half of its faculty members had attended the teaching and learning centre in 2013.

During our audit at University 3, we noted that although regular faculty members were evaluated annually, sessional instructors only occasionally received an evaluation. The university indicated that where performance problems are identified, faculty are encouraged to engage in professional development, but the university did not have a formal process in place.

Tenure and Promotion of Faculty

Recommendation 2

To help ensure that tenure and promotion decisions and the underlying documentation appropriately reflect the relative importance of a professor's teaching ability, the universities should:

- *ensure that all relevant information on teaching performance is made available to tenure and promotion committees and that all documentation supporting their recommendations is retained for an appropriate period of time; and*

Status: University 1: In the process of being implemented.
University 2: Fully implemented.
University 3: Little or no progress.

Details

Policy at University 1 included the evaluation of teaching as part of a faculty member's career. The university advised us that revised guidelines for preparing written assessments of teaching in promotion and tenure decisions had been developed, that additional training is now being provided to members of the tenure and promotion committees with regard to the assessment of teaching, and that its updated guidelines are expected to be rolled out across all of the university's divisions by June 2015.

University 2 reiterated that it places equal value on teaching and research in its tenure and promotion processes and noted that the most recent collective agreement with its faculty association requires that committees in the tenure process receive access to the official faculty files that contain among other items, course evaluations, performance evaluations and a teaching dossier.

At the time of our 2012 audit, University 3 provided a list of the criteria used to support an application for tenure and promotion. However, we were only able to review documentation relating to 2011 tenure and promotion decisions because a clause in the collective agreement required all tenure and promotion documents to be destroyed immediately after a decision, unless an appeal or grievance was lodged. The university advised us that it was still under the same collective agreement. As well, we were advised that the university was planning to put in place a tool to collect aggregate course evaluation data to help inform tenure and promotion decisions, but its implementation is contingent upon negotiations with, and approval by, faculty through the collective bargaining process.

- *explore means to ensure that tenure and promotion processes clearly reflect the relative importance teaching ability has with respect to such decisions.*

  Status: University 1: In the process of being implemented.
  Universities 2 and 3: Fully implemented.

Details

During the audit, at University 1, we noted that an overwhelming majority of tenure decisions were made on the basis of excellent research and competent, rather than excellent, teaching. Since that time, the university has drafted revised guidelines for developing written assessments of teaching in promotion and tenure decisions to affirm the university's commitment to promoting teaching excellence and to a rigorous evaluation of teaching. While the university has indicated that it is committed to promoting teaching excellence, 94% (136/144) of tenure-track faculty in the past two years (2012/13 and 2013/14) received tenure based on excellence in research and competence in teaching. In the same period 100% (28/28) of teaching stream faculty that had been promoted to senior lecturer had received the promotion based on excellence in teaching.

University 2 reinforced its commitment to equally value teaching and research by stipulating in its most recent collective agreement that: "Faculty members have an obligation to develop and maintain their scholarly competence and effectiveness as teachers. Faculty members have an obligation to continue their professional development to enhance and broaden their professional and teaching ability." In addition, the university has formalized its record-keeping practices to require that all faculty tenure files be kept indefinitely and, as previously noted, the agreement requires committees in the tenure process to receive access to all relevant information on teaching.

At University 3, the collective agreement between faculty and the university outlines specific criteria for tenure and promotion, including effective teaching. The collective agreement requires sustained satisfactory and effective teaching during the probationary appointment or previous relevant teaching experience. We were provided with examples of criteria to be considered by the tenure and promotion committee, including teaching evaluation scores, written comments from students, peer reviews and course materials.

Training and Professional Development

Recommendation 3

To help ensure that all faculty members provide effective classroom instruction, universities should work with faculty to encourage greater participation in professional development activities and implement procedures to ensure that faculty who would benefit from additional teacher training are formally encouraged to participate in these activities.

Status: Universities 1, 2 and 3: In the process of being implemented.

Details

University 1 noted that it provided increased funding to its teaching and learning centre to expand capacity and provide more programming for faculty members and sessional instructors. The teaching and learning centre has indicated to administrators that they can support teaching development by connecting faculty to resources such as the centre. In addition, since university policy requires the Provost's office to be notified of any concerns related to teaching, the Provost can suggest remedial courses of action for professors, such as a referring them to the teaching centre.

University 2 noted that it had increased funding to its teaching and learning centre and enhanced its tracking of faculty attendance at the centre. Although the university was not able to demonstrate that it had a formal process in place to encourage professional development where necessary, more than half of its faculty had attended the teaching and learning centre in 2013. The university also noted that attendance at its orientation sessions in 2013 was 63% for sessional instructors and 90% for core faculty members. In addition, the university had launched a new support website where instructors can find information on topics including teaching strategies and tips.

University 3 informed us that it was committed to providing more professional development opportunities for interested faculty. To encourage participation in teaching-related events, financial incentives, such as the reimbursement of costs, were made available to faculty. In addition, as part of the annual performance review, faculty deans may provide feedback to staff on their performance and highlight areas related to teaching. Where teaching concerns are noted, deans may encourage faculty to seek professional development through programs and services offered by the university's teaching centre.

Faculty Cost and Workload

Recommendation 4

To enhance their understanding of the impact that use of various teaching resources has on teaching quality and student outcomes, universities should:

- *assess the impact of class size on teaching quality and study how best to address the challenges posed by large classes; and*

  Status: Universities 1 and 2: In the process of being implemented.
  University 3: Little or no progress.

Details

University 1 indicated that it planned to use the database that is now being generated from its new online course evaluation system to study, among other issues, the impact of large classes on teaching quality. As well, this university was actively studying the impact of class size on teaching quality and provided the results of a review of the literature on the subject of tutorials, class size and student learning. The review suggested that the design of meaningful learning goals, the skill of the instructor and proper course preparation were more important contributors to quality than class size alone.

University 2 officials indicated that they had not attempted to assess the impact of class size on teaching quality. However, they did not think they had very many large classes. Nevertheless, the university indicated it was engaged in a study that would assist it in assessing the challenges posed by large class sizes and that it planned to look at student evaluation data to study the links between class size and student evaluations.

University 3 had not formally evaluated the impact of class size on teaching quality and did not consider large classes to be a significant concern at the university because small classes had been a cornerstone of the university since its inception. As well, officials told us the university had worked on balancing large lecture classes by including a secondary component to these courses that splits the class into groups of 15 to 40 students per section to encourage small group learning.

- *weigh the impact of using teaching and sessional faculty and the extent to which they can best be used to address resource constraints.*

  Status: Universities 1, 2 and 3: Little or no progress.

Details

At University 1, no formal assessment had been done on the impact on teaching quality and student outcomes of using teaching and sessional faculty. However, we were advised that the new online course evaluation tool will allow academic management and other administrators to consider the impact of different delivery options on student learning.

University 2 stated that no assessment had been done to assess the impact teaching stream and sessional instructors have on teaching quality. During the audit we noted that students had indicated in evaluations that, although they were satisfied with the performance of sessional instructors, teaching-stream and tenure-stream faculty tended to perform better than their sessional counterparts. The university indicated that following the audit, it had decreased its use of sessional instructors.

At University 3, sessional faculty positions were limited by the collective agreement to 14% of total teaching staff, and the university did not have teaching-only faculty. Nevertheless, the university had not formally assessed the impact that using sessional faculty had on teaching quality and student outcomes.

Performance Measurement and Reporting by the Ministry

Recommendation 5

To assist students in making informed decisions on university and program selection and to help achieve its goal of adequately preparing Ontario students for the future workforce, the Ministry of Training, Colleges and Universities should:

- *collect and make public sufficient information on student outcomes, including information on graduate employment outcomes and students' satisfaction with the quality of their education; and*

  Status: In the process of being implemented.

Details

The Ministry took a number of steps to collect better student-level data and provide more information publicly to support informed decision-making about postsecondary education and career choices. For example, the Ministry established a working group in January 2013 to discuss the Ontario University Graduate Survey and opportunities for gathering additional data and increasing the amount of survey data made public. The Ontario University Graduate Survey captures data from students six months and two years after graduation. In addition, the Ministry continues to work with universities to expand the use of the Ontario Education Number (OEN) to assist in the collection of student-level data. The Ministry noted that university reports have OENs for 95% of students, and the Ministry has introduced legislation to further expand the use of this student identifier. Also, to make career and labour market information more readily available to students and the public, the Ministry released updates to its Ontario Job Futures and its Employment Profile websites in March 2014.

We noted that the Ministry had started to publish additional results from the Ontario University Graduate Survey, including results on the level of education needed in the jobs graduates were working in, an assessment of how closely the job related to their program of study, whether graduates were working full time, and their annual salaries. However, such data was only published at an aggregate provincial level and was not made available at the university or program level to help students make informed decisions on university and program selection.

The Ministry updated the 2011 graduate survey to include questions such as whether the respondent was working more than one paid job and whether the respondent was working in an unpaid position. While the Ministry increased the number of questions in the survey and plans to collect additional information, it had not yet committed to publishing the results of specific survey questions asked.

- *work with the university sector to support the development of meaningful measures for student learning outcomes as a way to maintain teaching quality.*

  Status: In the process of being implemented.

Details

The Ministry noted that since the release of our *2012 Annual Report*, it has continued to explore ways to measure the quality of postsecondary education with the help of the Higher Education Quality Council of Ontario (HEQCO), an agency of the Ontario government. For example, HEQCO piloted a number of learning outcomes projects with Ontario college and university partners and has commissioned 40 projects to evaluate a variety of innovations in teaching and learning. As of October 2014, it had published 21 studies commissioned from this series, including Undergraduates' Understanding of Skill-Based Learning Outcomes, Cooperation and Competition in Large Classrooms, and Developing Teaching Assistants as Members of the University Teaching Team. HEQCO had also piloted three major approaches to learning outcomes assessment, was supporting ongoing institutional work to identify effective methods of evaluating learning outcomes, and in 2013 convened a multi-year Learning Outcomes Assessment Consortium of three Ontario universities and three colleges.

Chapter 4

Ministry of Children and Youth Services

Section

4.12 Youth Justice Services Program

Follow-up to VFM Section 3.13, *2012 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2		2		
Recommendation 2	4	1	1	2	
Recommendation 3	5		4		1
Recommendation 4	2		2		
Recommendation 5	3	1	1	1	
Recommendation 6	4	1	3		
Recommendation 7	1		1		
Total	**21**	**3**	**14**	**3**	**1**
%	**100**	**14**	**67**	**14**	**5**

Background

The Ministry of Children and Youth Services (Ministry) provides community and custodial programs and services to Ontario youths aged 12 to 17 who have been charged with a crime and are awaiting trial, or who have been found guilty by a court. The Ministry also provides services to divert youths from formal court proceedings and some services for youths at risk of committing a crime. The Youth Justice Services program aims to reduce the incidence of reoffending and to contribute to community safety, largely through rehabilitative programming.

During the 2013/14 fiscal year, the average daily population in Ontario's youth justice system was about 6,900—6,500 under community supervision and 400 in youth custody/detention facilities (250 in open facilities and 150 in secure facilities). Comparatively in 2011/12, the average daily population in Ontario's youth justice system was about 9,200—8,600 under community supervision and 600 in youth custody/detention facilities (200 in open facilities and 400 in secure facilities).

In 2013/14, the Ministry spent $352 million on the Youth Justice Services program ($370 million in 2011/12), including $180 million in transfer payments ($168 million in 2011/12) to approximately 200 community-based agencies. The federal government contributed $52 million toward these costs under various cost-sharing agreements ($67 million in 2011/12).

In our *2012 Annual Report*, we noted that as in many other jurisdictions, the program had undergone a shift in philosophy over the previous decade, from an incarceration-based approach to a community-based rehabilitation approach. Between 2005/06 and 2010/11, total program expenditures in the Youth Justice Services program increased by 25%–30%, while the number of youths served increased by only 5%. As well, ministry operating costs grew at a much faster rate than funding to transfer-payment agencies (47% and 19%, respectively), even though the number of Ministry-funded programs and services offered by transfer payment agencies grew by almost 40% because of the shift to community-based rehabilitation. The growth in direct operating costs was primarily due to an increase in employee costs.

Our observations included the following:

- Over the five-year period ending 2010/11, all youth justice program areas, except for probation offices, saw a substantial increase in the number of full-time employees. More than 60% of all full-time ministry staff in the Youth Justice Services program were working in Ministry-operated secure facilities. Although the average daily youth population in these facilities decreased by 37% from 2006/07 to 2010/11, the number of full-time youth services officers increased by 50%. Most of this increase occurred in 2008 and 2009 when three newly built, Ministry-operated facilities became operational. The Ministry acknowledged that the facilities it operates directly were likely overstaffed and had started to take action to reduce staffing levels.
- In the 2010/11 fiscal year, on average, only about 50% of the beds in custody facilities were occupied. Over the years, the Ministry has tried to improve the utilization rate by reducing the number of beds available in the system, either by closing facilities or by funding fewer beds in existing facilities. However, the Ministry projected that the overall utilization rate would still be just 58% in 2012/13.
- The average daily cost per youth varied significantly among both open and secure facilities. For example, in 2011, the average daily cost per youth ranged from $331 to $3,012 for agency-operated open facilities, from $475 to $1,642 for agency-operated secure facilities, and from $1,001 to $1,483 for Ministry-operated secure facilities. These cost differences led us to question whether funding practices among facilities were in proportion to the need for services.
- In the 2010/11 fiscal year, 6.5% of youth services officers in Ministry-operated facilities were placed on long-term permanent medical accommodations. These accommodations allow an employee who is temporarily or permanently unable to perform the essential duties of his or her job because of a medical condition or disability to be placed in another job that does not demand the same physical abilities. This increases the cost of Ministry-operated facilities because the employee's vacated position must be filled by someone else.
- The Ministry's "single-case management" model has been a positive initiative. The aim is to have a youth's case assigned the same probation officer any time the youth is in the system. As well, in our review of case files, we noted many times where the knowledge and experience of probation officers was put to good use to manage youths' needs. However, many of the required risk assessments and identified rehabilitation needs were not being documented by probation officers. Also,

many court-ordered conditions were either not being complied with or not documented sufficiently for us to determine compliance, or the conditions were unverifiable.

- Ministry recidivism (reoffending) rates were 35% for youths with community sentences and 59% for youths who had served custody sentences. However, these recidivism statistics excluded more than 80% of youths who had come into contact with the program. Groups excluded from the calculation were all youths held in detention prior to trial, all youths diverted from court through extrajudicial sanctions (that is, youths who are made to perform other actions to take responsibility for their behaviours, instead of going to court), more than 90% of youths sentenced to custody and approximately two-thirds of youths sentenced to community supervision. The Ministry informed us that it excludes these groups because these youths do not spend at least six months in custody, and studies indicate that the Ministry cannot influence a person's behaviour in less than six months. Therefore, the Ministry was not evaluating how effective its programs and services were in improving outcomes for 80% of youth that entered the system.

We made a number of recommendations for improvements and received commitments from the Ministry that it would take action to address them.

Status of Actions Taken on Recommendations

The Ministry provided us with information in the spring and summer of 2014 on the current status of our recommendations. According to this information, the Ministry has fully implemented a few of the recommended actions in our *2012 Annual Report*, and was in the process of implementing most of the other recommended actions. For example, the Ministry developed a Program Evaluation Framework to help it evaluate programs and services across the youth justice sector. However, other recommended actions are requiring more time to fully address. In particular, more work is needed to investigate high rates of long-term permanent medical accommodation and implement measures to reduce those rates among staff; and compare and analyze agency costs of similar programs across the province, and investigate and reduce significant variances that seem unjustified.

We noted that the Ministry did consider requiring people working in youth custody/detention facilities to undergo a Canadian Police Information Check every five years, as we recommended, but it decided against implementing such a requirement. In our view, the Ministry should reconsider this decision, since these people are frequently in contact with people under the age of 18. In addition, we would expect policies surrounding youth service officers to be consistent, whether the officers are working in Ministry-operated facilities or agency-operated facilities. Currently, officers in Ministry-operated facilities must self-report regarding criminal charges or convictions, but those in agency-operated facilities must do so only if the agency requires it.

The status of the actions taken on each recommendation is described in the following sections.

Program Expenditures

Recommendation 1

To help ensure that spending for secure and open custody/detention facilities in the Youth Justice Services program is commensurate with the need for services, the Ministry of Children and Youth Services should:

- *take additional steps to improve utilization rates by reducing bed capacity in significantly underused facilities; and*

  Status: In the process of being implemented.

- *review all facilities' per diem costs for reasonableness and reduce funding for those whose per*

diem costs significantly exceed the provincial average, keeping in mind the quality and scope of services provided by each facility.
Status: In the process of being implemented.

Details

From March 31, 2012, to March 31, 2014, the Ministry reduced the number of beds in two secure custody/detention facilities and increased in one, for a net decrease of 70 beds (or 12%); and closed four open custody/detention facilities and reduced beds in 24 other open custody/detention facilities, for a total reduction of 85 open custody/detention beds in the province (that is, a 20% reduction). Over the last two years, the average utilization rates have worsened even with these reductions, dropping to 47% from 55% in secure facilities and to 39% from 46% in open facilities. This is likely due to a greater decrease in the average daily population in facilities relative to the change in the number of beds. The Ministry's target utilization rate remains at 70% for both secure and open facilities.

In July 2013, the Ministry retained a consultant to evaluate its approach to capacity planning for the youth custody and detention system in Ontario, and to make recommendations to improve the overall effectiveness of the capacity planning process while ensuring alignment with the Ministry's guiding principles. According to the Ministry, these principles include, among other things, maintaining a safe environment for youth and staff; maintaining capacity to serve special populations, such as females and aboriginals; maintaining capacity for volume fluctuations; and housing youth close to home. The consultant noted that there were gaps in forecasting, such as adjusting for demographics, including trends in the average daily population and the length of stay. The consultant also said that factors other than the guiding principles had to be considered when making decisions on capacity rationalization, such as the facility operator's performance. The Ministry indicated it would use the consultant's findings where appropriate to strengthen the existing process of monitoring utilization rates and making decisions about significantly underutilized facilities.

In November 2013, the Ministry completed a review of actual per diem costs for the 2012/13 fiscal year for select custody/detention facilities in order to assess reasonability. The Ministry set a threshold of 30% above the provincial average for open facilities and 15% above the provincial average for secure facilities, to define which facilities "significantly" exceeded the provincial average. The Ministry identified 16 of 31 open facilities and five of 12 secure facilities whose per diem costs exceeded the provincial average by more than 30% and 15% respectively. The average per diem cost for open facilities was $699, and those identified as significantly exceeding the average had per diems ranging from $910 to $2,100. The average per diem for secure facilities was $873, and those identified as significantly exceeding the average had per diems ranging from $1,038 to $1,310. The Ministry considered factors that tend to increase per diem costs, such as geographic location, gender of the youth served, bed capacity and utilization. The Ministry concluded that the per diem rates across the Youth Justice Services program were reasonable and appropriate in light of the quality and scope of services being provided and given specific cost drivers associated with the respective facilities. Consequently, no funding changes were made. We question the Ministry's conclusion, since there was no evidence that the Ministry's analysis included a review of the quality and scope of services being provided. In addition, seven open facilities exceeded the threshold the Ministry established for not only the average overall per diem rate for all open custody/detention facilities, but also the average per diem rates for facilities with similar capacity and facilities serving the same gender. Similarly, two secure facilities not only exceeded the Ministry's threshold for average overall per diem rate for all secure facilities, but also the average per diem rates for facilities with similar types of operators and facilities serving the same gender.

The Ministry informed us that it will continue to look for ways to deliver services more economically. Aside from closing two open custody facilities in 2013/14, the Ministry is starting a joint review in November 2014 with the Ministry of Community Safety and Correctional Services (MCSCS) to determine whether it is feasible to build three small youth justice facilities in the GTA and transition the Roy McMurtry Youth Centre to MCSCS for use as an adult female facility. It is also considering alternative uses within the Ministry for some custody/detention facilities.

Factors Influencing Employee Costs at Ministry-operated Facilities

Recommendation 2

To help reduce employee operating costs, particularly at Ministry-operated facilities, the Ministry of Children and Youth Services should:

- *staff custody/detention facilities on the basis of expected utilization and not on the basis of full capacity, and use contract staff to fill vacancies only after evaluating the short-term staffing needs of the site;*
  Status: Little or no progress.
- *reassess whether the bonus payouts from the sick-day program are proving to be a cost-effective strategy in reducing absenteeism;*
  Status: Fully implemented.
- *investigate high rates of long-term permanent medical accommodation and, where appropriate, implement measures to reduce those rates; and*
  Status: Little or no progress.
- *identify behaviour-management techniques other than secure isolation that have been used successfully by agency-operated facilities to prevent or manage undesirable behaviour.*
  Status: In the process of being implemented.

Details

At the time of our follow-up, the Ministry was continuing to fund custody/detention facilities on the basis of full capacity rather than expected utilization. The Ministry told us it must have the capacity to meet the ongoing intake/admission needs as determined by the courts. The Ministry further indicated that it is not possible to accurately predict expected utilization at any time in the year.

The Ministry told us it has begun to monitor and track employee operating costs and staff usage, including reviewing scheduling practices for fixed-term staff, and developing a unit-centric scheduling application to support more efficient scheduling practices for youth service officers in Ministry-operated facilities. The Ministry expected to complete these activities in January 2015.

We contacted the Ministry of Government Services to determine the cost-effectiveness of the bonus payout initiative that was in place from 2009 to 2012 to reduce sick days, primarily among youth services officers. We were told that estimated bonus payments under the initiative totalled $1.85 million and the estimated cumulative net savings totalled $5.9 million. We were also informed that the average number of sick days for youth service officers decreased from 20 days in 2009 to 12 days in 2013. This compares reasonably to the average sick days for all Ontario Public Service (OPS) employees, which in 2013 was 10 days.

In our 2012 audit, we reported that 6.5% of youth services officers in Ministry-operated facilities were on long-term permanent medical accommodation in 2011. In its response to our report, the Ministry indicated that the OPS had initiated a disability management review process to identify and implement best practices to enhance employment accommodation and return-to-work performance and outcomes. In turn, an action plan would be developed to implement enterprise-wide program improvements. At the time of our follow-up, the Ministry of Government Services had developed an action plan and initiatives were under way to prevent workplace injuries and illnesses, where possible, and to support the timely and safe return to work for those who experience injury, illness or disability.

Furthermore, at the time of our follow-up, the Youth Justice Services program had not investigated the high rates of long-term permanent medical accommodation in Ministry-operated facilities or implemented measures to reduce those rates. As a result, based on staffing information provided to us by the program, we calculated that the percentage of youth services officers in Ministry-operated facilities who were on long-term permanent medical accommodation increased to 15% in 2013/14.

In our 2012 audit, we reported that Ministry-operated facilities made use of secure isolation rooms more often and for longer periods of time than agency-operated facilities to manage aggressive behaviours. In its response to our report, the Ministry indicated that it would review behaviour management techniques used by agency-operated facilities to determine whether their use would be appropriate for its own operated facilities. The Ministry completed such a review in September 2014. The review considered the four physical intervention models currently approved for use under the *Child and Family Services Act*. As well, the Ministry was piloting a prevention technique called Stop Now and Plan (SNAP), a cognitive-behavioural technique designed to help youths exercise self-control and use socially appropriate solutions to emotional triggers. According to the Ministry, the next phase of work is to consult with Ministry-operated and agency-operated facilities with a focus to share best practices and effective strategies in responding to challenging behaviours. This consultation and sharing of best practices is expected to occur by June 2015.

Case Management

Recommendation 3

To help ensure that case-management efforts result in youths obtaining the services and programs needed for rehabilitation, the Ministry of Children and Youth Services should:

- *complete all required risk/needs assessments, case-management plans and case-management reintegration plans on a timely basis;*

  Status: In the process of being implemented.

- *ensure that case-management plans have specific goals and recommended programs and services to assist youth in addressing all high-risk areas identified and any court-ordered conditions;*

  Status: In the process of being implemented.

- *clearly document in the case files whether or not youths have complied with court-ordered conditions and community-service requirements and, if they have not, what efforts were made by the probation officer to rectify this;*

  Status: In the process of being implemented.

- *develop guidelines or policies about what types of extrajudicial sanctions are appropriate to use and when; and*

  Status: Will not be implemented.

- *ensure that the required case-file reviews are being done consistently across all probation offices and determine whether there are any systemic issues warranting additional guidance or training.*

  Status: In the process of being implemented.

Details

In December 2013, the Ministry released two new reports to help probation offices and regional offices identify case management items that were overdue. The "Overdue RNA/Closing Summary Report" is intended to assist probation officers in identifying initial and updated risk need assessments (RNAs) that are past due and closed files with no closing summary. The "Overdue RNA/Closing Summary Regional Report" is expected to provide regional offices with a snapshot of overdue RNAs and closing summaries within an office and across the region. The Ministry did not develop a report to identify upcoming due dates for RNAs, as it had committed to do in its response to our audit recommendations. In contrast to the Ministry's view, we consider that such a report would be a useful tool. At the time of our follow-up, we requested and reviewed the latest available summary regional reports and noted that 700 RNAs and 600 closing summaries were outstanding as of June 2014. However, the reports did not indicate how long the outstanding items had been overdue.

Not all events that require a case review and an updated RNA can be tracked by the system, for example, changes in a youth's circumstances. The Ministry informed us that to address these situations, probation officers were reminded to complete case reviews and update RNAs as outlined in policy.

In May 2012, the Ministry launched a Probation Strategy, which included a commitment to review the Case Management Compliance Review Tool (CMCRT). This tool, introduced in August 2006 and revised in November 2011, is the evaluation form used by probation managers during the annual case management compliance reviews to monitor probation officers' compliance with Ministry standards for probation services. At the time of our follow-up, the Ministry had held consultations with groups of probation officers across the province and had identified ongoing issues with the tool, including a lack of understanding on how to use it and inconsistent interpretation, as well as redundancies, errors and gaps. As part of the review, the Ministry had also aggregated and compared the results of case management compliance reviews for a sample of probation offices for the fiscal years 2011/12 and 2012/13. The Ministry found inconsistency in both scoring and completion of the tool. Based on the findings to date on the CMCRT review, the Ministry informed us that it would be undertaking a more comprehensive redesign of the tool than originally expected, and anticipated completion by the end of 2014/15. The Ministry informed us that the findings of this review would support improved case management monitoring processes, and would inform training initiatives, policy development and strategic planning.

We reviewed the results of the 2012/13 case management compliance reviews for select items and noted that:

- 70% of the case management plans (CMPs) contained youth goals that addressed the youths' criminogenic factors;
- where goals existed, 96% of the CMPs specified the means to achieve those goals;
- 39% of the CMPs addressed the conditions of supervision orders; and
- 24% of case files documented youths' compliance with court orders.

The Ministry informed us that the training curriculum for new probation officers was redesigned in 2013 to include comprehensive direction for the completion of risk need assessments and case management plans. These are the foundations for goal setting, provision of services, addressing non-compliance with court orders, and monitoring progress. At the time of our follow-up, more than 380 probation officers and probation managers had attended a two-day training session.

The Ministry will not be implementing our recommendation to develop guidelines or policies about what type of extrajudicial sanctions are appropriate to use and when. According to the Ministry, the *Youth Criminal Justice Act* and program policies are created in such a way as to recognize the individuality of the youth, and recognize the need to allow professional judgment at the local or provider level. Although the 2014/15 contracts with service providers who manage youth participating in extrajudicial sanctions were revised to include a list of possible sanctions, the contracts state that the service provider has to develop an individualized sanction for each young person that reflects the nature of the offence and the individual needs of the young person.

Programs and Services

Effectiveness of Agency Programs and Services

Recommendation 4

To ensure that effective programs and services are offered to youths no matter where they live in Ontario, the Ministry of Children and Youth Services should:

- *ascertain that the services and programs contracted for actually align with best-practice youth rehabilitation research; and*

  Status: In the process of being implemented.

- *establish and maintain a master list of regional programs and services that uses consistent terminology and make this information available to all probation officers.*

  Status: In the process of being implemented.

Details

In October 2013, the Ministry developed the Program Evaluation Framework, which guides the evaluation of non-residential and residential programs and services across the youth justice sector. The Ministry stated that this framework is an important first step because it confirms its expectations for alignment of services with best-practice research for youth in conflict with the law and provides tools for assessment of this alignment. At the time of our follow-up, the Ministry was developing training materials for program delivery staff and an implementation plan to support the rollout of the Program Evaluation Framework. Training on the framework was expected to occur by October 2014, and evaluation of current programs that target criminogenic risk factors at each directly operated facility is expected to be completed by December 2014.

At the time of our follow-up, the Ministry had completed an inventory of programs and services for Ministry-operated facilities and made that information available online to all probation office staff. It was also in the process of cataloguing programs and services offered by transfer payment agencies in open and secure custody/detention facilities. The next phase of work would include agency validation of the collected program information. Work was also under way to collect program information from non-residential attendance centres operated by transfer payment agencies. The Ministry expects to add all programs and services provided in custody/detention facilities operated by transfer payment agencies to the inventory by December 2014. At the time of our follow-up, we were unable to obtain any confirmation that consistent terminology was being used in service contracts for similar programs and services. We reviewed the listing for program and services for Ministry-operated facilities, and, similar to our finding in 2012, we noted that the names of what appear to be similar programs and services were not consistent from one facility to the next. Without good information on the specific programs and services available in each region, there is a risk of inequities across regions and a risk that youths might not be connected with the services and programs that best meet their needs.

Funding and Monitoring of Programs and Services Offered in the Community

Recommendation 5

To ensure that funding provided to transfer-payment agencies is commensurate with the value of services provided, the Ministry of Children and Youth Services should:

- *ensure that approved funding to agencies is appropriate for the expected level of service, based on levels of service achieved in the last few years;*

  Status: In the process of being implemented.

- *compare and analyze agency costs of similar programs across the province, and investigate significant variances that seem unjustified; and*

  Status: Little or no progress.

- *ensure that requests for additional funding are adequately supported.*

  Status: Fully implemented.

Details

In 2014, the Ministry conducted a review of all youth justice programs delivered by transfer payment agencies. For each program, the Ministry reviewed approved budget amounts, service targets and the actual number of youth served for the three years from 2010/11 to 2012/13, and for the first half of 2013/14. Altogether, the Ministry reviewed 485 programs delivered by more than 200 transfer payment agencies. According to Ministry documentation, the review revealed trends where costs and/or projections seemed disproportionately high for the number of youths served over the assessment period. The Ministry then considered factors that could account for some of the anomalies, including higher costs associated with northern/remote communities, female residents and agencies with specialized staff. As a result, 28 transfer payment agencies were identified for further review, two-thirds of which were custody/detention facilities. After further review, the Ministry concluded that approved funding was appropriate and/or that corrective action was already under way.

We looked at a sample of custody and detention facilities that were further reviewed and questioned the justification provided to conclude that funding was appropriate. All cases we sampled included the following justifications:

- Service targets were unpredictable due to inconsistent numbers coming through the courts.
- Funding amounts used may have included one-time increases and or decreases and therefore did not reflect base funding.
- Costs and service levels for custody and detention were analyzed in isolation from one another instead of combined.

At the time of our follow-up, the Ministry had developed an expenditure analysis report that compared approved funding to actual funding for each quarter. But the report did not consider service targets and the actual number of youth served. The Ministry told us that it would be modifying the report to include these other data items. No date for implementation had been set at the time of our follow-up. Regardless, Ministry officials informed us that in their experience, no two agencies are exactly alike in terms of their structure or the programs/services they deliver, nor is it possible to develop standard unit costing for any of their programs or services. However, this tool will provide them with the ability to compare agencies that provide similar programs/services to a similar number of people.

In July 2013, the Ministry's controller sent out a memo to regional managers reminding staff of their obligation to provide clear documentation that supports approval for changes in funding. A new form was developed and circulated on July 17, 2013, to ensure sufficient, appropriate documentation for changes in funding, consistent across all regions. The Ministry indicated that compliance was being monitored through the normal transfer payment contracting cycle.

Ministry Oversight of Custody/Detention Facilities

Recommendation 6

To ensure that the annual facility inspection and licensing process results in a safe and secure living environment with effective services and programs for youth residents, the Ministry of Children and Youth Services should:

- *revise the inspection checklist to eliminate duplication and place more emphasis on the quality of programming and services being offered;*
  Status: In the process of being implemented.
- *work toward obtaining more consistency in data collection and recording and in reporting inspection findings;*
  Status: In the process of being implemented.
- *where significant compliance issues are noted, ensure that appropriate and timely follow-up is done; and*
  Status: In the process of being implemented.

- *consider requiring that people working in youth custody/detention facilities undergo a Canadian Police Information Centre check, including vulnerable-sector screening, every five years and not only at the time of initial hiring.*

Status: Fully implemented.

Details

In October 2012, the Ministry rolled out a revised checklist for use during facility inspection and licensing reviews. This checklist was one-third the size of the one used at the time of our audit. The Ministry stated that all requirements of the youth justice manual, legislation and Ministry policy were maintained and that there was no duplication. We reviewed the revised checklist and noted that, although it was improved, it continued to place little emphasis on the quality of the programming and services being offered to youth to reduce recidivism. The Ministry informed us that programs and services would start to be evaluated once the program delivery staff received training in October 2014 on the new Program Evaluation Framework. The Ministry indicated that programs and services offered at Ministry-operated facilities would be evaluated first, and those evaluations would be completed by December 2014.

In October 2012, the Ministry required all regions to use the revised automated checklist for all licence reviews, in order to support consistency in data collection. In addition, in May 2013, the Ministry developed reports for analyzing licensing activities and results, and made them available to regions to support division-wide monitoring, trend analysis and identification of corrective actions. Report topics include the number of residents interviewed; the number of case files reviewed; a list of legislative non-compliances observed at time of inspection; and a breakdown of non-compliances at time of inspection by theme. The Ministry expects these reports to facilitate timely follow-up when compliance issues are noted. At the time of our follow-up, the Ministry was planning to conduct a post-implementation review in fall 2015.

The Ministry informed us that in June 2014 it had implemented enhanced security screening, which included an intelligence check, a credit check, a check of Internet and social networking sites, a check for driving offences, an RCMP fingerprint analysis, and Interpol check for people who have lived abroad. But the enhanced checks would be done only at time of hire and only for youth service officers working at directly operated custody/detention facilities. Youth service officers and other people working with youths at agency-operated facilities would still be required to get a CPIC check only at time of hire. The Ministry told us it assessed the benefits and risks of requiring people working in youth custody/detention facilities to undergo a CPIC check, including vulnerable-sector screening, every five years and not only at the time of initial hiring and decided not to implement it for people working in either Ministry-operated facilities or agency-operated facilities. The Ministry further informed us that it considers adequate its policy of requiring Ministry-employees to self report any new charges or convictions. The Ministry's policy does not extend to youth service officers and other people working with youths at agency-operated facilities. In these cases, these people would only self-report a new charge or conviction if required to do so under their own agencies' policies.

Performance Measurement and Reporting

Recommendation 7

To enable it to evaluate and report on the effectiveness of the Youth Justice Services program, the Ministry of Children and Youth Services should expand the measure for recidivism so that it captures most of the youths in the program to better enable it to assess which services, programs and delivery agencies seem to be the most successful over time.

Status: In the process of being implemented.

Details

In our 2012 audit, we reported that the Ministry was not tracking recidivism for more than 80% of youth who came into contact with the Youth Justice Services program. For 2010/11, this included all youth held in detention prior to trial, all youth diverted from court through extrajudicial sanctions, more than 90% of youth sentenced to custody and approximately two-thirds of youth sentenced to community supervision. At the time of our follow-up, the Ministry still had not expanded the measure for recidivism to capture most of the youth in the program.

Instead, the Ministry informed us that it plans to consult with academics about recidivism measures and have an amended approach to measuring recidivism by the end of the 2014/15 fiscal year. As well, as part of its Data Strategy, the Ministry has identified three outcome measures in addition to reducing reoffending (recidivism), namely improved functioning and positive social behaviours; increased skills and abilities; and increased youth engagement with supports. For each outcome, the Ministry has also established indicators. The Ministry informed us that tools to track and report on these outcomes were developed and went live in October 2014. Specific targets for performance indicators would be established in 2015/16.

Chapter 5

Review of Government Advertising

Advertising Review Activity, 2013/14

This year marks the 10th anniversary of the passage of the *Government Advertising Act, 2004* (Act), which requires my Office to review most government advertising to ensure it is not partisan.

The Act remains the only such law in Canada, although in late 2013 an MP in the House of Commons introduced a private member's bill modelled on the Act that would have required the federal Auditor General to review and approve federal government advertising. The bill did not go beyond first reading. In Ontario, the New Democratic Party introduced a bill to expand our Office's review function to include advertising paid for by entities in the Broader Public Sector, such as universities and colleges, hospitals, and various government agencies. The bill passed second reading and was referred to committee for further study. However, it died when the House was dissolved on May 2, 2014, for the June 12, 2014, election. It is interesting to note that both proposed bills would have included the Internet as a reviewable medium; the Act in Ontario, as it stands now, does not.

This chapter satisfies the legislative requirement in the Act and the *Auditor General Act* to report annually to the Legislative Assembly on the work we have done over the past fiscal year.

Results of Our Reviews

In the 2013/14 fiscal year, we reviewed 625 individual advertising items in 145 submissions, with a total value of nearly $30 million. This is comparable to the 2012/13 fiscal year.

A breakdown of submissions and expenditures by government ministry is provided in **Figure 1**.

Figure 2 shows the top 10 ad campaigns by expenditure. These 10 campaigns account for more than 82% of the total expenditure on ads that our Office reviewed.

In all cases, we gave our decision within the required seven business days. Although the time required for a decision varies with the complexity of the ad submission and other work priorities, the average turnaround time during the past fiscal year was 3.6 business days. In addition, we examined 12 pre-review submissions comprising 35 ads at a preliminary stage of development. As pre-reviews are outside the statutory requirements of the Act, there is no limit on the deliberation time we may take. Nonetheless, we make every effort to complete them in a reasonable amount of time. The average turnaround time last fiscal year was about eight business days.

Violations and Contraventions of the Act

Of all the advertising submissions we received in the 2013/14 fiscal year, we rejected one: The Ministry of Economic Development, Trade and Employment submitted an English and French version of a

Figure 1: Expenditures for Reviewable Advertisements and Printed Matter under the *Government Advertising Act, 2004*, April 1, 2013–March 31, 2014*

Source of data: Ontario government ministries/Advertising Review Board

	# of	# of	Agency	Production	Media Costs ($)				
Ministry	Submissions	Items	Fees ($)	Costs[1] ($)	TV	Print	Out-of-Home[2]	Radio	Total ($)
Aboriginal Affairs	4	6	–	5,053	–	752	–	750	6,555
Agriculture, Food and Rural Affairs	9	63	261,793	1,193,346	3,199,441	10,295	381,352	880,511	5,926,738
Attorney General	6	10	–	99	–	7,627	–	–	7,726
Citizenship and Immigration	3	32	–	5,399	–	201,438	–	–	206,837
Community Safety and Correctional Services	8	33	–	28,450	49,065	124,818	603	–	202,936
Consumer Services	2	3	87,348	429,333	460,305	799	–	–	977,785
Economic Development, Trade and Employment	11	50	498,703	222,730	–	2,972,225	1,172,371	–	4,866,029
Energy	1	2	–	1,715	–	42,752	–	–	44,467
Finance	4	107	326,891	333,179	1,884,220	819,238	338,367	286,353	3,988,248
Government Services/ServiceOntario	9	14	–	490	–	9,318	–	–	9,808
Health and Long-Term Care	16	144	208,066	484,284	3,734,873	1,555,307	1,345,592	–	7,328,122
Infrastructure	1	2	207,034	318,498	1,329,950	–	–	–	1,855,482
Labour	2	51	–	47,287	48,795	53,435	–	–	149,517
Municipal Affairs and Housing	1	2	–	861	–	9,884	–	–	10,745
Natural Resources	23	34	–	1,052	–	134,050	10,000	22,643	167,745
Tourism, Culture and Sport	41	63	19,649	16,408	44,758	119,358	24,576	23,587	248,336
Training, Colleges and Universities	2	5	380,950	682,156	2,141,415	–	–	(1,355)[a]	3,203,166
Transportation	2	4	9,000	23,109	545,940	25,567	–	–	603,616
Total	**145**	**625**	**1,999,434**	**3,793,449**	**13,438,702**	**6,086,863**	**3,272,861**	**1,212,489**	**29,803,858**

* The *Auditor General Act* requires our Office to report annually on expenditures for advertising and printed matter reviewable under the GAA. In order to verify completeness and accuracy, we reviewed selected payments and supporting documentation. We also examined compliance relating to the sections of the Act dealing with submission requirements and use of ads during the Auditor General's review.

1. Includes talent, bulk mail and translation costs.
2. Includes billboards, transit posters, etc.

a. Negative total due to media credits being applied.

Note: The ministries of Children and Youth Services, Community and Social Services, Education, Environment and Northern Development and Mines did not incur any GAA reviewable advertising costs.

Figure 2: Top Ten Advertising Campaign Expenditures for 2013/14* ($ million)

Source: Ontario government ministries/Advertising Review Board

Ministry	Campaign Title	Expenditure
Agriculture and Food and Rural Affairs	Foodland Ontario	5.92
Economic Development, Trade and Employment	Your Next Big Idea (International Advertising)	4.81
Health and Long-Term Care	Integrated Cancer Screening	2.72
Finance	2013 Ontario Savings Bonds	2.46
Training, Colleges and Universities	Youth Jobs Strategy	2.21
Infrastructure	Infrastructure Projects	1.86
Finance	Healthy Homes Renovation Tax Credit	1.26
Health and Long-Term Care	Physiotherapy, Exercise, Falls and Prevention	1.17
Health and Long-Term Care	Seasonal Influenza	1.09
Training, Colleges and Universities	30% Off Tuition	0.99
Total		**24.49**

* The campaign expenditures do not include any digital advertising costs.

30-second television ad about manufacturing in Ontario. We were concerned that this ad would have left viewers with the impression that Ontario's manufacturing sector was booming as a result of government programs and activities in this area. We therefore found the ad in violation of Section 6(1)5 of the Act, which states that "[i]t must not be a primary objective of the item to foster a positive impression of the governing party..." The ministry did not resubmit a modified version for our review.

The Ministry of Tourism, Culture and Sport paid to publish a full-page ad for Fort William Historical Park in a tourism magazine without first submitting it for, and receiving, our approval, as required by Sections 2(2) and 2(3) of the Act. Had this ad been submitted to us for review, we would have approved it with the addition of a statement that the ad was paid for by the Government of Ontario (as required by Section 6(1)2).

Other Matters

Timing and Volume of Ads During By-election Period

On January 15, 2014, writs were issued for by-elections to fill vacancies in the ridings of Thornhill and Niagara. The vote would be held on February 13, 2014. The government already had our approval for five TV advertisements to be aired during this period, including four ads about tuition rebates and one on cancer screening. We became concerned, however, on receiving two additional TV ad submissions for approval. Individually, these ads met the standards of the Act. However, taken together in the context of the two forthcoming by-elections, the sheer volume of the ads could have given the governing party a political advantage. We therefore chose to make our approval for the two campaigns conditional on their starting to run the day after the by-elections. These campaigns included a TV spot about various infrastructure projects across the province and a TV and print campaign about an available tax credit for accessibility improvements to seniors' homes. The government aired these ads after the by-elections.

Closing a Loophole in the Act

Online or digital advertising has become a key part of most marketing campaigns. Digital advertising makes use of Internet technologies to deliver advertisements. It can include advertisements delivered through social media websites, online advertising on search engines, display ads on websites or mobile, use of video, etc.

The *Government Advertising Act, 2004* does not cover any type of digital advertising. In the past, we have seen government online campaigns that would have been in violation of the Act if they had been submitted to our Office for review. In July 2014, for example, the government spent more than $500,000 promoting its 2014 Budget in a digital-only campaign that featured a series of online display ads on the websites of some Ontario newspapers, 15-second videos on the websites of TV news organizations and ads on Facebook and Twitter. It is questionable whether those ads would have met the standards of the Act had they been submitted to us for review. The costs of this campaign and others like it are not included in our expenditure information.

In the 2013/14 fiscal year, the government spent $12.48 million on digital advertising, or about $6.4 million more than it did on advertising in print. As **Figure 3** shows, spending on digital advertising has edged up in the last few years at the same time as spending on traditional media trended down. As digital advertising continues to grow in importance as an advertising medium, the dollar-value of this type of advertising will only increase. We believe that this remains a significant loophole that runs counter to the spirit of the Act. We have written to the government and suggested that it address this through an amendment to the Act that would include digital advertising.

Figure 4 illustrates the government's advertising expenditures by medium.

Figure 3: Advertising Expenditures, 2007–2014 ($ million)

Source: Office of the Auditor General of Ontario/Advertising Review Board

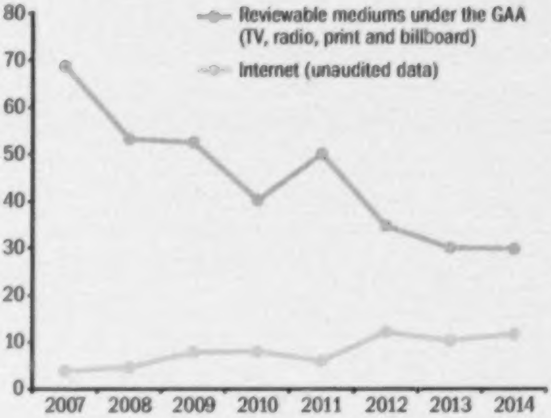
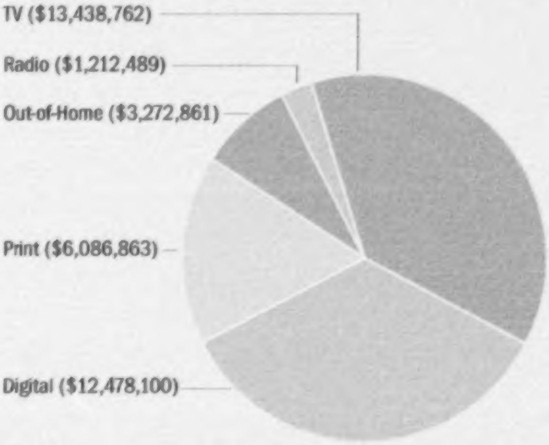


Figure 4: Advertising Expenditure by Medium, 2013/14

Source: Ontario government ministries/Advertising Review Board



Review Function

The Auditor General is responsible under the Act for reviewing specified types of government ads to ensure they meet legislated standards. Above all, such ads must not contain anything that is, or could be interpreted as being, primarily partisan in nature.

The Act outlines standards that advertisements must meet and states that "an item is partisan if, in the opinion of the Auditor General, a primary objective of the item is to promote the partisan political interests of the governing party."

The Act also gives the Auditor General discretionary authority to consider additional factors in determining whether a primary objective of an item is to promote the partisan interests of the governing party. The Act can be found at **www.e-laws.gov.on.ca**, and more details about the processes followed by our Office can be found in the *Government Advertising Review Guidelines* at **www.auditor.on.ca/adreview**.

What Falls Under The Act

The Act applies to ads that government offices—specifically, government ministries, Cabinet Office and the Office of the Premier—propose to pay to have published in a newspaper or magazine, displayed on a billboard, or broadcast on radio or television. It also applies to printed matter that a government office proposes to pay to have distributed to households in Ontario using unaddressed bulk mail or another method of bulk delivery. Advertisements meeting any of these definitions are known as "reviewable" items and must be submitted to my Office for review and approval before they can run.

The Act excludes from review job ads and notices to the public required by law. Also excluded are ads on the provision of goods and services to a government office, and those regarding urgent matters affecting public health or safety, where the normal seven-business-day process would impose undue delays in getting the message out.

The Act requires government offices to submit reviewable items to our Office. The government office cannot publish, display, broadcast, or distribute the submitted item until the head of that office, usually the deputy minister, receives notice, or is deemed to have received notice, that the advertisement has been approved.

If the Auditor General's Office does not render a decision within seven business days, the government office is deemed to have received notice that the item meets the standards of the Act, and it may run the item.

If my Office notifies the government office that the item does not meet the standards, the item may not be used. However, the government office may submit a revised version of the rejected item for another review. As with the first submission, my Office has seven days to render a decision. Under the Act, all decisions of the Auditor General are final.

Approval of an advertisement is valid for one year, although my Office can rescind an approval before then if we determine that new circumstances leave the impression that the ad has become partisan.

A pre-review is also available to government offices wishing us to examine an early version of an ad. This can be a script or storyboard, provided that it reasonably reflects the item as it is intended to appear when completed. Pre-reviews help limit the time and money spent to develop ads containing material that could be deemed objectionable under the Act. A pre-review is strictly voluntary on our part and is outside the statutory requirements of the Act.

If material submitted for pre-review appears to violate the Act, we provide a brief explanation to the government office. If it appears to meet the standards of the Act, we so advise the government office. However, before the advertisement can be used, the government office must submit it in finished form so we can review it to ensure that it still meets the standards of the Act.

Standards for Proposed Advertisements

In conducting its review, the Auditor General's Office determines whether the proposed advertisement meets the standards of the Act, which are:

- The item must be a reasonable means of achieving one or more of the following objectives:
  - to inform the public of current or proposed government policies, programs or services;
  - to inform the public of its rights and responsibilities under the law;
  - to encourage or discourage specific social behaviour in the public interest; and/or
  - to promote Ontario, or any part of the province, as a good place to live, work, invest, study or visit, or to promote any economic activity or sector of Ontario's economy.
- The item must include a statement that it is paid for by the government of Ontario.

- The item must not include the name, voice or image of a member of the Executive Council or a member of the Legislative Assembly (unless the primary target audience is located outside Ontario, in which case the item is exempt from this requirement).
- The item must not have a primary objective of fostering a positive impression of the governing party, or a negative impression of a person or entity critical of the government.
- The item must not be partisan; that is, in the opinion of the Auditor General, it cannot have as a primary objective the promotion of the partisan interests of the governing party.

Other Factors

In addition to the specific statutory standards above, the Act allows the Auditor General to consider additional factors to determine whether a primary objective of an item is to promote the partisan interests of the governing party. In general, these additional factors relate to the overall impression conveyed by the ad and how it is likely to be perceived. Consideration is given to whether it includes certain desirable attributes and avoids certain undesirable ones, as follows:

- Each item should:
  - contain subject matter relevant to government responsibilities (that is, the government should have direct and substantial responsibilities for the specific matters dealt with in the item);
  - present information objectively, in tone and content, with facts expressed clearly and accurately, using unbiased and objective language;
  - provide a balanced explanation of both the benefits and disadvantages when dealing with policy proposals where no decision has been made;
  - emphasize facts and/or explanations, rather than the political merits of proposals; and
  - enable the audience to distinguish between fact on the one hand and comment, opinion or analysis on the other.
- Items should not:
  - use colours, logos and/or slogans commonly associated with the governing party;
  - directly or indirectly attack, ridicule, criticize or rebut the views, policies or actions of those critical of the government;
  - intentionally promote, or be perceived as promoting, political-party interests (to this end, consideration is also given to the timing of the message, the audience it is aimed at and the overall environment in which the message will be communicated);
  - deliver self-congratulatory or image-building messages;
  - present pre-existing policies, services or activities as if they were new; or
  - use a uniform resource locator (URL) to direct readers, viewers or listeners to a webpage with content that may not meet the standards of the Act (see "Websites" in the following section).

Other Review Protocols

Since taking on responsibility for the review of government advertising, my Office has tried to clarify, in co-operation with the government, areas where the Act is silent. What follows is a brief description of the significant areas that have required clarification over the years.

Websites

Although websites are not specifically reviewable under the Act, we believe that a website, Quick Response Code or similar linkage used in an advertisement is an extension of the ad. Following discussions with the government, we came to an agreement soon after the legislation was passed that the first page, or "click," of a website cited in a reviewable item would be included in our review.

We consider only the content of the first click, unless that first click is a gateway page or lacks meaningful content, in which case we review the next page. We examine this page for any content that may not meet the standards of the Act. For example, the page must not include a minister's name or photo, any self-congratulatory messages or any content that attacks the policies or opinions of others.

Third-party Advertising

Government funds provided to third parties are sometimes used for advertising. The government and my Office have agreed that third-party advertising must be submitted for review if it meets all three of the following criteria:

- a government office provides the third party with funds intended to pay part or all of the cost of publishing, displaying, broadcasting or distributing the item;
- the government grants the third party permission to use the Ontario logo or another official provincial visual identifier in the item; and
- the government office approves the content of the item.

Social Media

Social media was in its infancy when the Act came into effect. However, its use has grown exponentially in recent years. Increasingly, our Office receives ads for approval with the use of various icons pointing to the government's presence on social-media sites. Although the Act is silent on this, we reached an agreement with the government that we will perform an initial scan of any social-media channel cited in an ad to ensure that there are no partisan references. However, we recognize that content on these networks changes frequently and can at times be beyond the control of the government office.

External Advisers

The Auditor General can, under the *Auditor General Act*, appoint an Advertising Commissioner to help fulfill the requirements of the *Government Advertising Act, 2004*. However, we have chosen instead to engage external advisers to assist in the review of selected submissions as needed. The following advisers provided services to my Office during the last fiscal year:

- Rafe Engle (J.D., L.L.M.) is a Toronto lawyer specializing in advertising, marketing, communications and entertainment law for a diverse group of clients in the for-profit and not-for-profit sectors. He also acts as the outside legal counsel for Advertising Standards Canada, and as Chair of its Advertising Standards Council. Before studying law, Mr. Engle acquired a comprehensive background in media, advertising and communications while working in the advertising industry.
- Jonathan Rose is Associate Professor of Political Studies at Queen's University. He is a leading Canadian academic with interests in political advertising and Canadian politics. Professor Rose has written a book on government advertising in Canada and a number of articles on the way in which political parties and governments use advertising.
- Joel Ruimy is a communications consultant with three decades of experience as a journalist, editor and producer covering Ontario and national politics in print and television.
- John Sciarra is the former director of operations in my Office. He was instrumental in implementing our advertising review function and overseeing it until his retirement in 2010.

These advisers provided valuable assistance in our review of government advertising this past year.

Chapter 6

The Standing Committee on Public Accounts

Role of the Committee

The Standing Committee on Public Accounts (Committee) is empowered to review and report to the Legislative Assembly its observations, opinions and recommendations on reports from the Auditor General and on the Public Accounts. These reports are deemed to have been permanently referred to the Committee as they become available. The Committee examines, assesses and reports to the Legislative Assembly on a number of issues, including the economy and efficiency of government and broader-public-sector operations, and the effectiveness of programs in achieving their objectives.

Under sections 16 and 17 of the *Auditor General Act*, the Committee may also request that the Auditor General examine any matter in respect of the Public Accounts or undertake a special assignment on its behalf.

The Committee typically holds a number of hearings throughout the year relating to matters raised in our Annual Report or in our special reports and presents its observations and recommendations to the Legislative Assembly.

Appointment and Composition of the Committee

Members of the Committee are typically appointed by a motion of the Legislature. The number of members from any given political party reflects that party's representation in the Legislative Assembly. All members except the Chair may vote on motions, while the Chair votes only to break a tie. The Committee is normally established for the duration of the Parliament, from the opening of its first session immediately following a general election to its dissolution.

In accordance with the Standing Orders of the Legislative Assembly, the Committee at the time of our last Annual Report was appointed on September 9, 2013 with the following members:

Norm Miller, Chair, Progressive Conservative
Toby Barrett, Vice-chair, Progressive Conservative
Lorenzo Berardinetti, Liberal
France Gélinas, New Democrat
Helena Jaczek, Liberal
Bill Mauro, Liberal
Phil McNeely, Liberal
Jerry Ouellette, Progressive Conservative
Jagmeet Singh, New Democrat

Committee Membership was revised by a motion on October 10, 2013 that replaced Jerry Ouellette with John O'Toole effective October 11, 2013, and Bill Mauro with Soo Wong effective April 1, 2014.

At the time the House dissolved for the June 2014 Ontario election, Committee membership was as follows:

Norm Miller, Chair, Progressive Conservative
Toby Barrett, Vice-chair, Progressive Conservative
Lorenzo Berardinetti, Liberal
France Gélinas, New Democrat
Helena Jaczek, Liberal
Phil McNeely, Liberal
John O'Toole, Progressive Conservative
Jagmeet Singh, New Democrat
Soo Wong, Liberal

(Note: Frank Klees, a Progressive Conservative, regularly served as a substitute member.)

Following the June 2014 election of a majority Liberal Government, agreement was reached on the Committee's membership in July 2014. In accordance with the Standing Orders of the Legislative Assembly, the new Committee was appointed on July 16, 2014 with the following members:

Ernie Hardeman, Chair, Progressive Conservative
Lisa MacLeod, Vice-chair, Progressive Conservative
Han Dong, Liberal
John Fraser, Liberal
Percy Hatfield, New Democrat
Harinder Malhi, Liberal
Julia Munro, Progressive Conservative
Arthur Potts, Liberal
Lou Rinaldi, Liberal

The Committee resumed meetings on October 22, 2014.

Auditor General's Advisory Role with the Committee

In accordance with section 16 of the *Auditor General Act*, the Auditor General, often accompanied by senior staff, attends all Committee meetings to assist with its reviews and hearings relating to our Annual Report, Ontario's Public Accounts and any special reports issued by our Office.

Committee Procedures and Operations

The Committee may meet weekly when the Legislative Assembly is sitting, and, with the approval of the House, at any other time of its choosing. All meetings are open to the public except for those dealing with the Committee's agenda and the preparation of its reports. All public Committee proceedings are recorded in Hansard, the official verbatim report of government debates, speeches and other Legislative Assembly proceedings.

The Committee identifies matters of interest from our Annual Report and our special reports and conducts hearings on them. It typically reviews reports from the value-for-money chapter of our Annual Report. Normally, each of the three political parties annually selects three audits or other sections from our Annual Report for Committee review.

At each hearing, the Auditor General, senior staff from her Office and a Research Officer from the Legislative Research Service brief the Committee on the applicable section from our Report. A briefing package is prepared by the Research Officer that includes the responses of the relevant ministry, Crown agency or broader-public-sector organization that was the subject of the audit or review. The Committee typically requests senior officials from the auditee(s) to appear at the hearings and respond to the Committee's questions. Because our Annual Report deals with operational, administrative and financial rather than policy matters, ministers are rarely asked to attend. Once the Committee's hearings are completed, the Research Officer prepares a draft report pursuant to the Committee's instructions. The Committee reports on its conclusions and makes recommendations to the Legislative Assembly.

The Clerk of the Committee annually also requests those auditees that were not selected for hearings to provide the Committee with an update of the actions taken to address our recommendations and other concerns raised in our reports.

Meetings Held

The Committee met 18 times between October 1, 2013 and April 30, 2014, and the Committee commenced fall meetings on October 22, 2014. Topics addressed at these meetings included the unfunded liability of the Workplace Safety and Insurance Board, the long-term care home placement process in Ontario, the education of aboriginal students and our March 2012 Special Report, *Ornge Air Ambulance and Related Services*. The majority of these meetings included hearings in which government and other witnesses were called to testify before the Committee and respond to questions regarding the Ornge Air Ambulance report. Motions were also passed requesting that our Office conduct additional special work, including reviews of Winter Road Maintenance Contracts, Community Care Access Centres, Teachers Collective Agreements and Pan Am/Parapan Am Games Security Costs.

Reports of the Committee

The Committee issues reports and letters on its work for tabling in the Legislative Assembly. These reports and letters summarize the information gathered by the Committee during its meetings and include the Committee's comments and recommendations. Once tabled, all committee reports and letters are publicly available through the Clerk of the Committee or online at **www.ontla.on.ca**.

Committee reports typically include recommendations and request that management of the Ministry, agency or broader-public-sector organization provide the Committee Clerk with responses within a stipulated time frame. Our Office reviews these recommendations and responses, and we take them into consideration in any subsequent follow-up section or audits of that operational area.

The Committee completed the *Ornge Air Ambulance and Related Services: Summary Report* in May 2014. The report was not tabled before the dissolution of the House for the June election. On October 22, 2014, the new Committee that was appointed after the election passed a motion to table the report in the Legislative Assembly before the end of 2014.

Canadian Council of Public Accounts Committees

The Canadian Council of Public Accounts Committees (CCPAC) consists of delegates from federal, provincial and territorial public accounts committees from across Canada. CCPAC holds a joint annual conference with the Canadian Council of Legislative Auditors to discuss issues of mutual interest.

The 35th annual conference was hosted by Newfoundland and Labrador in St. John's from August 10 to 12, 2014.

Chapter 7

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario (Office) serves the Legislative Assembly and the citizens of Ontario by conducting value-for-money and financial audits and reviews, and reporting on them. In so doing, the Office helps the Legislative Assembly hold the government, its administrators and grant recipients accountable for how prudently they spend public funds, and for the value they obtain for the money spent on behalf of Ontario taxpayers.

The work of the Office is performed under the authority of the *Auditor General Act*. In addition, under the *Government Advertising Act, 2004*, the Auditor General is responsible for reviewing and deciding whether or not to approve certain types of proposed government advertising (see Chapter 5 for more details on the Office's advertising review function). Both acts can be found at **www.e-laws.gov.on.ca**.

In a year that a regularly scheduled election is held, the Auditor General is also required to review and deliver an opinion on the reasonableness of the government's pre-election report on its expectations for the financial performance of the province over the next three fiscal years. However, the 41st Ontario general election held on June 12, 2014, was called outside the regular four-year cycle. As a result, the Auditor General did not complete a review because the government had not prepared a pre-election report.

General Overview

Value-for-money Audits in the Annual Report

About two-thirds of the Office's work relates to value-for-money auditing, which assesses how well a given "auditee" (the entity that we audit) manages and administers its programs or activities. Value-for-money audits delve into the auditee's underlying operations to assess the level of service being delivered to the public and the relative cost-effectiveness of the service. The Office has the authority to conduct value-for-money audits of the following entities:

- Ontario government ministries;
- Crown agencies;
- Crown-controlled corporations; and
- organizations in the broader public sector that receive government grants (for example, agencies that provide mental-health services, children's aid societies, community colleges, hospitals, long-term-care homes, school boards and universities).

The *Auditor General Act* (Act) [in subclauses 12(2)(f)(iv) and (v)] identifies the criteria to be considered in a value-for-money audit:

- Money should be spent with due regard for economy.

- Money should be spent with due regard for efficiency.
- Appropriate procedures should be in place to measure and report on the effectiveness of programs.

The Act requires that the Auditor General report on any instances he or she may have observed where the three value-for-money criteria above have not been met. More specific criteria that relate directly to the operations of the particular ministry, program or organization being audited are also developed for each value-for-money audit.

The Act also requires that the Auditor General report on instances where the following was observed:

- Accounts were not properly kept or public money was not fully accounted for.
- Essential records were not maintained or the rules and procedures applied were not sufficient to:
  - safeguard and control public property;
  - check effectively the assessment, collection and proper allocation of revenue; or
  - ensure that expenditures were made only as authorized.
- Money was expended for purposes other than the ones for which it was appropriated.

Assessing the extent to which the auditee complies with the requirement to protect against these risks is generally incorporated into both value-for-money audits and "attest" audits (discussed in a later section). Other compliance work that is also typically included in our value-for-money audits includes determining whether the auditee adheres to key provisions in legislation and the authorities that govern the auditee or the auditee's programs and activities.

Government programs and activities are the result of government policy decisions. Thus, we could say that our value-for-money audits focus on how well management is administering and executing government policy decisions. It is important to note, however, that in doing so we do not comment on the merits of government policy. Rather, it is the Legislative Assembly that holds the government accountable for policy matters by continually monitoring and challenging government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

In planning, performing and reporting on our value-for-money work, we follow the relevant professional standards established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants). These standards require that we have processes for ensuring the quality, integrity and value of our work. Some of the processes we use are described in the following sections.

Selecting What to Audit

The Office audits major ministry programs and activities at approximately five- to seven-year intervals. We do not audit organizations in the broader public sector and Crown-controlled corporations on the same cycle because their activities are numerous and diverse. Since our mandate expanded in 2004 to allow us to examine these auditees, our audits have covered a wide range of topics in sectors such as health (hospitals, long-term-care homes, Community Care Access Centres and mental-health service providers), education (school boards, universities and colleges), and social services (children's aid societies and social service agencies), as well as several large Crown-controlled corporations.

In selecting what program, activity or organization to audit each year, we consider how great the risk is that an auditee is not meeting the three value-for-money criteria, which results in potential negative consequences for the public it serves. The factors we consider include the following:

- the impact of the program, activity or organization on the public;
- the total revenues or expenditures involved;
- the complexity and diversity of the auditee's operations;
- the results of previous audits and related follow-ups;

- recent significant changes in the auditee's operations;
- the benefits of conducting the audit compared to the costs; and
- the significance of the potential issues an audit might identify.

We also consider work that has been done by the auditee's internal auditors, and may rely on, or reference, that work in the conduct of our audit. Depending on what that work consists of, we may defer an audit or change our audit's scope to avoid duplication of effort. In other cases, we do not diminish the scope of our audit, but we do rely on and present the results of internal audit work in our audit report.

Setting Audit Objectives, Audit Criteria and Assurance Levels

When we begin an audit, we set an objective for what the audit is to achieve. We then develop suitable audit criteria that cover the key systems, policies and procedures that should be in place and operating effectively to address identified risks. Developing criteria involves extensive research into sources such as recognized bodies of expertise; other organizations or jurisdictions delivering similar programs and services; management's own policies and procedures; applicable criteria applied in other audits; and applicable laws, regulations and other authorities.

To further ensure their suitability, the criteria we develop are discussed with the auditee's senior management at the planning stage of the audit.

The next step is to design and conduct tests and procedures to address our audit objective and criteria, so that we can reach a conclusion regarding our audit objective and make observations and recommendations. Each audit report has a section entitled "Audit Objective and Scope," in which the audit objective is stated and the scope of our work is explained.

The assurance that we plan for our work to provide is at an "audit level"—the highest reasonable level of assurance that we can obtain using our regular audit procedures. Specifically, an audit level of assurance is obtained by interviewing management and analyzing information that management provides; examining and testing systems, procedures and transactions; confirming facts with independent sources; and, where necessary because we are examining a highly technical area, obtaining independent expert assistance and advice. We also use professional judgment in much of our work.

Conducting tests and procedures to gather information has its limitations, so we cannot provide an "absolute level of assurance" that our audit work identifies all significant matters. Other factors also contribute to this. For example, we may conclude that the auditee had a control system in place for a process or procedure that was working effectively to prevent a particular problem from occurring, but auditee management or staff might be able to circumvent such control systems, so we cannot guarantee that the problem will never arise.

With respect to the information that management provides, under the Act we are entitled to access all relevant information and records necessary to perform our duties.

The Office can access virtually all information contained in Cabinet submissions or decisions that we deem necessary to fulfil our responsibilities under the Act. However, out of respect for the principle of Cabinet privilege, we do not seek access to the deliberations of Cabinet.

Infrequently, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information provided by management; and only limited examination and testing of systems, procedures and transactions. We perform reviews when:

- it would be prohibitively expensive or unnecessary to provide a higher level of assurance; or

- other factors relating to the nature of the program or activity make it more appropriate to conduct a review instead of an audit.

In the 2011 audit year, we conducted such a review of the electricity sector stranded debt, which complemented our related value-for-money audits of renewable energy initiatives and regulatory oversight of the electricity sector. Our 2009 review of the Unfunded Liability of the Workplace Safety and Insurance Board was well received by the Standing Committee on Public Accounts, which has shown an ongoing interest in the actions being taken to reduce that liability. In 2012, we reviewed the process used to review and approve the province's annual expenditure Estimates, and ways to make the process more effective.

Communicating with Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the value-for-money audit or review. Early in the process, our staff meet with management to discuss the objective, criteria and focus of our work in general terms. During the audit or review, our staff meet with management to update them on our progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on our preliminary results. A draft report is then prepared and discussed with the auditee's senior management, which provides written responses to our recommendations. These are discussed and incorporated into the draft report, which the Auditor General finalizes with the deputy minister or head of the agency, corporation or grant-recipient organization, after which the report is published in Chapter 3 of the Auditor General's Annual Report.

Special Reports

As required by the Act, the Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Legislative Assembly at any time, on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report.

Two sections of the Act authorize the Auditor General to undertake additional special work. Under section 16, the Standing Committee on Public Accounts may resolve that the Auditor General must examine and report on any matter respecting the Public Accounts. Under section 17, the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes it conflicts with other duties.

In recent years when we have received a special request under section 16 or 17, our normal practice has been to obtain the requester's agreement that the special report will be tabled in the Legislature on completion and made public at that time. This year, the following special reports were either requested or tabled under section 17 by the Standing Committee on Public Accounts:

- A review of the Ontario Lottery and Gaming Corporation Modernization Plan Implementation and Cancellation of the Slots at Race Tracks Program (tabled in April 2014)
- An audit of the Education Sector Collective Agreements – September 1, 2012 to August 31, 2014 (tabled in November 2014)
- An audit of private security contracts for the 2015 Pan/Parapan American Games (tabled in November 2014)
- A review of the Ministry of Transportation's winter road maintenance program (to be tabled in 2015); and
- An audit of community care access centres, including examinations of compensation, and the cost effectiveness of care protocols and home visits (to be tabled in 2015).

Attest Audits

Attest audits are examinations of an auditee's financial statements. In such audits, the auditor expresses his or her opinion on whether the financial statements present information on the auditee's operations and financial position in a way that is fair and that complies with certain accounting policies (in most cases, with Canadian generally accepted accounting principles). As mentioned in the overview of value-for-money audits, compliance audit work is often incorporated into attest audit work. Specifically, we assess the controls for managing risks relating to improperly kept accounts; unaccounted-for public money; lack of recordkeeping; inadequate safeguarding of public property; deficient procedures for assessing, collecting and properly allocating revenue; unauthorized expenditures; and not spending money on what it was intended for.

The Auditees

Every year, we audit the financial statements of the province and the accounts of many agencies of the Crown. Specifically, the Act [in subsections 9(1), (2), and (3)] requires that:

- the Auditor General audit the accounts and records of the receipt and disbursement of public money forming part of the province's Consolidated Revenue Fund, whether held in trust or otherwise;
- the Auditor General audit the financial statements of those agencies of the Crown that are not audited by another auditor;
- public accounting firms appointed as auditors of certain agencies of the Crown perform their audits under the direction of the Auditor General and report their results to the Auditor General; and
- public accounting firms auditing Crown-controlled corporations deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

Chapter 2 discusses this year's attest audit of the province's consolidated financial statements.

We do not typically discuss the results of attest audits of agencies and Crown-controlled corporations in this report. Agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible for the agency. Our Office also provides copies of our independent auditor's reports and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

We identify areas for improvement during the course of an attest audit of an agency and provide our recommendations to agency senior management in a draft report. We then discuss our recommendations with management and revise the report to reflect the results of our discussions. After the draft report is cleared and the agency's senior management has responded to it in writing, the auditor prepares a final report, which is discussed with the agency's audit committee (if one exists). We bring significant matters to the attention of the Legislature by including them in our Annual Report.

Part 1 of Exhibit 1 lists the agencies that were audited during the 2013/14 audit year. The Office contracts with public accounting firms to audit a number of these agencies on the Office's behalf. Part 2 of Exhibit 1 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that public accounting firms audited during the 2013/14 audit year. Exhibit 3 lists significant organizations in the broader public sector whose accounts are also audited by public accounting firms and included in the province's consolidated financial statements.

Other Stipulations of the *Auditor General Act*

The *Auditor General Act* came about with the passage on November 22, 2004, of the *Audit Statute Law Amendment Act* (*Amendment Act*), which received Royal Assent on November 30, 2004. The purpose of the Amendment Act was to make certain changes to the Audit Act to enhance our ability to serve the Legislative Assembly. The most significant of these changes was the expansion of our Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants.

Appointment of Auditor General

Under the *Auditor General Act* (Act), the Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on the advice of the Executive Council (the Cabinet). The appointment is made "on the address of the Assembly," meaning that the appointee must be approved by the Legislative Assembly. The Act also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Legislative Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information about the Standing Committee on Public Accounts, see Chapter 6).

Independence

The Auditor General and staff of the Office are independent of the government and its administration. This independence is an essential safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause by the Legislative Assembly. Consequently, the Auditor General maintains an arm's-length distance from the government and the political parties in the Legislative Assembly and is thus free to fulfill the Office's legislated mandate without political pressure.

The Board of Internal Economy—an all-party legislative committee that is independent of the government's administrative process—reviews and approves the Office's budget, which is subsequently laid before the Legislative Assembly. As required by the Act, the Office's expenditures relating to the 2013/14 fiscal year have been audited by a firm of chartered professional accountants, and the audited financial statements of the Office have been submitted to the Board and subsequently must be tabled in the Legislative Assembly. The audited statements and related discussion of expenditures for the year are presented at the end of this chapter.

Confidentiality of Working Papers

In the course of our reporting activities, we prepare draft audit reports and findings reports that are considered an integral part of our audit working papers. Under section 19 of the Act, these working papers do not have to be laid before the Legislative Assembly or any of its committees. As well, our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, which means our draft reports and audit working papers, including all information obtained from an auditee during the course of an audit, cannot be accessed from our Office, thus further ensuring confidentiality.

Code of Professional Conduct

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work.

The Code explains why these expectations exist and further describes the Office's responsibilities to the Legislative Assembly, the public and our auditees. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations. All employees are required to complete an annual conflict-of-interest declaration and undergo a police security check upon being hired and every five years thereafter.

Office Organization and Personnel

The Office is organized into portfolio teams, intended to align with related audit entities and to foster expertise in the various areas of audit activity. The portfolios, loosely based on the government's own ministry organization, are each headed by a Director, who oversees and is responsible for the audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see **Figure 1**).

The Auditor General, the Deputy Auditor General, the Directors, the Chief Operating Officer, and the Managers of Human Resources and of Communications and Government Advertising make up the Office's Senior Management Committee.

During the year, the Office undertook a strategic planning initiative with an outlook for the next five years. The Office's vision, mission and organizational values were refreshed, and a balanced scorecard was developed to define goals, objectives, strategies and initiatives, and to track progress. Effective October 2014, a new organizational structure was put into place for the upcoming audit year.

Canadian Council of Legislative Auditors

This year, Newfoundland and Labrador hosted the 42nd annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in St. John's, from August 10 to 12, 2014. For a number of years, this annual gathering has been held jointly with the annual conference of the Canadian Council of Public Accounts Committees. It brings together legislative auditors and members of the Standing Committees on Public Accounts from the federal government and the provinces and territories, and provides a useful forum for sharing ideas and exchanging information.

International Visitors

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with visitors and delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences. During the period from October 1, 2013 to September 30, 2014, the Office hosted delegations from Kenya and China, as well as visitors from Argentina, Bangladesh, Cameroon, Ghana and Tanzania.

Results Produced by the Office This Year

This was another successful year for the Office, particularly given the unprecedented amount of additional work requested this year.

In total, we conducted 12 value-for-money audits (see Chapter 3), issued three special reports under section 17, and completed the majority of

Figure 1: Office Organization, September 30, 2014

Auditor General

Bonnie Lysyk

Deputy Auditor General

Gary Peall

Communications and Government Advertising Review

Christine Pedias, Manager
Mariana Green
Shirley McGibbon
Tiina Randoja

Quality Assurance and Special Projects

Paul Amodeo, Manager
Kristin Snowden, Manager

Standards and Research

Rebecca Yosipovich, Manager

Operations

Mohammed Siddiqui, Chief Operating Officer

Human Resources
- Barbara Sturrock, Manager

Finance and Administration
- Maureen Bissonnette
- Sohani Myers
- Shanta Persaud
- Christine Wu

Information Technology
- Shams Ali
- Peter Lee
- Shariq Saeed

Financial Statement Audit Portfolios and Staff[1]

Crown Agencies (1), Finance

John McDowell, Director
Walter Allan, Manager
Tom Chatzidimos
Kandy Fletcher
Mary Romano
Megan Sim

Crown Agencies (2)

Laura Bell, Director
Teresa Carello, Manager
Izabela Beben
Margaret Chen[2]
Constantino De Sousa
Roger Munroe
Zachary Thomas
Cynthia Tso

Public Accounts

Bill Pelow, Director
Georgegiana Tanudjaja, Manager
Loretta Cheung
Whitney Wah[2]

Value-for-money Audit Portfolios and Staff[1]

Community and Social Services, and Revenue

Vanna Gotsis, Director
Sandy Chan, Manager
Celia Yeung, Manager
Tino Bove
Inna Greenberg
Jennifer Lee
Benjamin Leung
Michael Okulicz[2]
Gurinder Parmar
Aaqib Shah
Zhenya Stekovic
Janet Wan

Education and Training

Gerard Fitzmaurice, Director
Zahra Jaffer, Manager
Emanuel Tsikritsis, Manager
Michael Baxter
Johan Boer[2]
Michael Katsevman
Nina Khant[2]
Tara Petroff[2]
Mythili Pratheeskar
Mark Smith[2]
Ellen Tepelenas
Dora Ulisse

Energy and Health

Rudolph Chiu, Director
Gigi Yip, Manager
Denise Young, Manager
Arujunan Balakrishnan
Ariane Chan
Anita Cheung
Helen Chow
Margaret Lam
Ravind Nanubhai
Oscar Rodriguez
Pasha Sidhu
Alla Volodina

Environment and Natural Resources

Gus Chagani, Director
Kim Cho, Manager
Nick Stavropoulos, Manager
Bartosz Amerski
Marcia DeSouza
Katrina Exaltacion
Lauren Hanna
Kristy Ho
Li-Lian Koh
Shreya Shah
Alexander Truong
Jing Wang

Health and Long-term-care Providers

Susan Klein, Director
Wendy Cumbo, Manager
Naomi Herberg, Manager
Kevin Aro
Sally Chang
Dimitar Dimitrov
Vanessa Dupuis
Jennifer Fung
Ingrid Goh[2]
Veronica Ho
Linde Qiu
Tiffany Yau

Justice and Regulatory

Vince Mazzone, Director
Rick MacNeil, Manager
Fraser Rogers, Manager
Vivian Sin, Manager
Jesse Dufour
Rashmeet Gill
Kiran Grewal[2]
Tanmay Gupta
Alfred Kiang
Wendy Ng
Alice Nowak
Ruchir Patel
Brian Wanchuk
Robyn Wilson
Michael Yarmolinsky

1. Staff below manager level shift between portfolios to address seasonal financial statement audit workload pressures.
2. A member of the portfolio who contributed to this Annual Report but left the Office before September 30, 2014.

work on two other special requests with reports to follow, all while operating within our budget. One planned value-for-money audit, on Civil Courts, has been postponed to allow us to complete the more urgent special work requested.

As mentioned in the earlier Attest Audits section, we are responsible for auditing the province's consolidated financial statements (further discussed in Chapter 2), as well as the statements of more than 40 Crown agencies. We again met all of our key financial statement–audit deadlines while continuing to invest in training to ensure adherence to accounting and assurance standards and methodology for conducting our attest audits.

We successfully met our review responsibilities under the *Government Advertising Act, 2004*, as further discussed in Chapter 5.

The results produced by the Office this year would clearly not have been possible without the hard work and dedication of our staff, as well as that of our agent auditors, contract staff and expert advisers.

Financial Accountability

The following discussion and our financial statements outline the Office's financial results for the 2013/14 fiscal year. Our financial statements have been prepared in accordance with public-sector accounting standards. In accordance with these standards, we have presented a breakdown of our expenses by the main activities our Office is responsible for: value-for-money and special audits, financial-statement audits, and the review of government advertising. This breakdown is provided in Note 9 to the financial statements and indicates that almost two-thirds of our resources were used to perform value-for-money and special audits, a stated priority of the Standing Committee on Public Accounts. About one-third was devoted to completing the audits of the annual financial statements of the province and over 40 of its agencies. The remaining 1% was devoted to our statutory responsibilities under the *Government Advertising Act*.

Figure 2 provides a comparison of our approved budget and expenditures over the last five years. **Figure 3** presents the major components of our spending and shows that over 73% (74% in 2012/13) related to salary and benefit costs for staff, while professional and other services, and rent, comprised most of the remainder. These proportions have been relatively stable in recent years. Overall, our expenses increased by just 1.6% (0.7% in 2012/13) from the prior year.

Our budget has been frozen for four of the last five years. As a result, we have not been able to fully

Figure 2: Five-year Comparison of Spending (Accrual Basis) ($ 000)

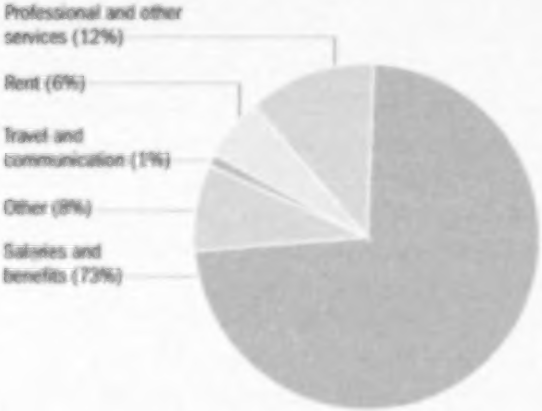
Prepared by the Office of the Auditor General of Ontario

	2009/10	2010/11	2011/12	2012/13	2013/14
Approved budget	**16,224**	**16,224**	**16,224**	**16,224**	**16,427**
Actual expenses					
Salaries and benefits	10,862	11,228	11,039	11,390	11,342
Professional and other services	1,489	1,491	1,667	1,643	1,866
Rent	1,069	1,036	1,016	989	1,001
Travel and communications	360	337	303	309	190
Other	1,073	1,071	1,216	1,015	1,192
Total	**14,853**	**15,163**	**15,241**	**15,346**	**15,591**
Returned to province*	**1,498**	**1,222**	**997**	**1,000**	**679**

* These amounts are typically slightly different than the excess of appropriation over expenses as a result of non-cash expenses (such as amortization of capital assets, deferred lease inducements and employee future benefit accruals).

Figure 3: Spending by Major Expenditure Category, 2013/14

Prepared by the Office of the Auditor General of Ontario



staff up and have faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market—our public-service salary ranges have simply not kept pace with compensation increases for such professionals in the private sector.

A more detailed discussion of the changes in our expenses and some of the challenges we face follows.

Salaries and Benefits

Our salary costs decreased 1.9% after an increase of 3.7% the prior year, while benefit costs rose 6% following a 0.9% increase from the previous year. This increase is mainly due to staff going on parental leave, increases in premium rates, and severances paid.

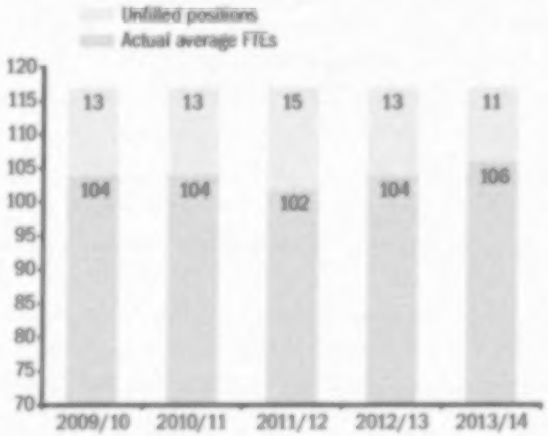
With the legislated freeze on salary ranges, any salary increases from promotions earned by trainees who obtained their professional accounting designations during the year and by staff who demonstrated the ability to take on additional responsibilities continued to be offset by delaying replacements of retiring and departing staff. Overall, our average staffing level rose by two, to 106 people from 104 in the year before, as shown in Figure 4. Most students who earned their professional accounting designation during the year remained with us. To be competitive, we must pay our newly qualified staff considerably more than they were paid as trainees, because salaries for qualified accountants rise fairly quickly in the private sector in the first five years following qualification.

With the economic uncertainty and the continuing need for cost containment, we remained cautious by delaying the replacement of retiring senior staff and hiring experienced but more junior staff as opportunities arose. Staff departures continue as the market for professional accountants has remained fairly robust despite economic uncertainties. Our hiring continues to be primarily at more junior levels, where our salaries and benefits are competitive. Our salaries quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is one reason that, as **Figure 4** shows, we still have a number of unfilled positions. The growing complexity of our audits requires highly qualified, experienced staff as much as possible. The challenge of maintaining and enhancing our capacity to perform these audits will only increase as more of our most experienced staff retire over the next few years.

Under the Act, our salary levels must be comparable to the salary ranges of similar positions in the government. These ranges remain uncompetitive with the salaries that both the not-for-profit and the private sectors offer. According to the most recent

Figure 4: Staffing, 2009/10–2013/14

Prepared by the Office of the Auditor General of Ontario



survey by the Chartered Professional Accounts of Canada (previously the Canadian Institute of Chartered Accountants), published in 2013, average salaries for CPAs in government ($108,000) were 7% lower than those in the not-for-profit sector ($118,000) and, most importantly, 14% lower than those at professional service CPA firms ($134,000), which are our primary competition for professional accountants. The salaries of our highest-paid staff in the 2013 calendar year are disclosed in Note 7 to our financial statements.

Professional and Other Services

These services include both contract professionals and contract CPA firms, and represent our next most significant spending area, at almost 12% of total expenditures. These costs increased by 14% compared to last year, as we continue to use contract staff to cover for parental and unexpected leaves, and to help us manage peak workloads during the summer months. Other costs, relating to legal services, printing and translation costs for reports, and staff membership dues, have increased while being offset by savings from changes in internet and wireless service providers.

We continue to rely on contract professionals to meet our legislated responsibilities given more complex work and tight deadlines for finalizing the financial-statement audits of Crown agencies and the province. Also, even during the economic downturn, it has remained difficult for us to reach our approved full complement, given our uncompetitive salary levels, particularly for professionals with several years of post-qualifying experience. Further, after four years of budget freezes with only a slight increase in the prior year's budget relating to benefits, we can no longer afford to move up to our approved complement of 117 staff.

Contract costs for CPA firms we work with remain higher because of the higher salaries they pay their staff and the additional hours required to implement ongoing changes to accounting and assurance standards. We continue to test the market for such services as contracts expire, and we have achieved savings in some cases.

Rent

Our costs for accommodation increased slightly compared to the previous year, owing primarily to an increase in the rental costs per square foot beginning in the fall of 2013. However, our accommodation costs are still less than they were five years ago.

Travel and Communications

Our travel and communications costs decreased by 38%, after an increase of 2% in the previous year. In general, we are incurring significantly more travel costs since the expansion of our mandate to audit broader-public-sector organizations. However, these will vary each year depending on the audits selected. This year, the value-for-money audits we carried out generally required less travel compared to last year.

Other

Other costs include asset amortization, supplies and equipment maintenance, training and statutory expenses. These costs were 17% higher than last year, primarily due to the costs of previously unpaid entitlements earned by the previous Auditor General. In addition, expenses for statutory services have increased significantly because of an increase in the number of audits requiring expert advice and assistance this year.

Financial Statements

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian public sector accounting principles.

Management maintains a system of internal controls that provides reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded, and the financial information contained in these financial statements is reliable and accurate.

The financial statements have been audited by the firm of Adams & Miles LLP, Chartered Professional Accountants. Their report to the Board of Internal Economy, stating the scope of their examination and opinion on the financial statements, appears on the following page.

Bonnie Lysyk, CPA, CA, LPA
Auditor General
September 26, 2014

Gary R. Peall, CPA, CA, LPA
Deputy Auditor General
September 26, 2014

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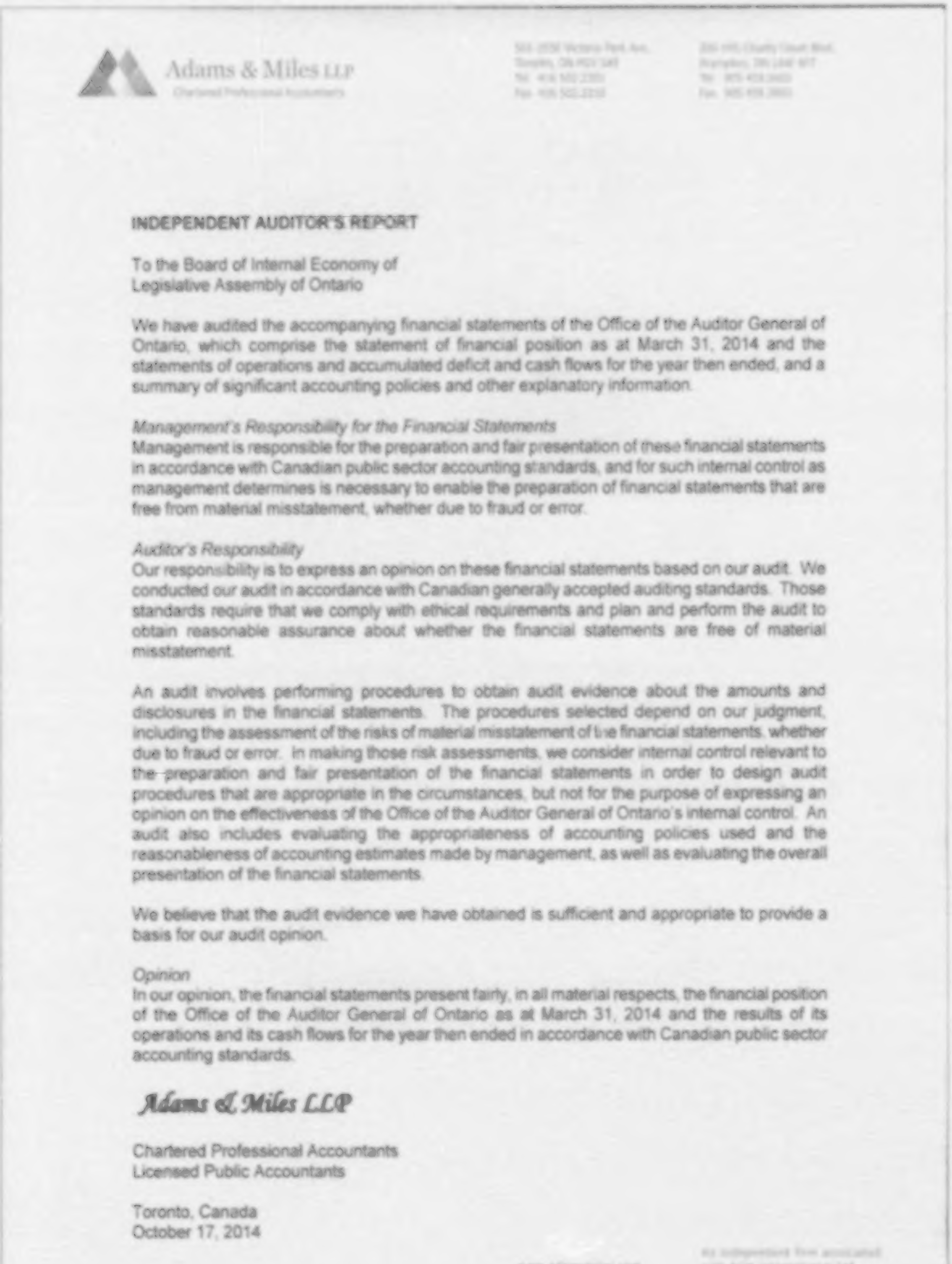

Adams & Miles LLP

INDEPENDENT AUDITOR'S REPORT

To the Board of Internal Economy of
Legislative Assembly of Ontario

We have audited the accompanying financial statements of the Office of the Auditor General of Ontario, which comprise the statement of financial position as at March 31, 2014 and the statements of operations and accumulated deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of the Auditor General of Ontario's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Adams & Miles LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 17, 2014

Office of the Auditor General of Ontario

Statement of Financial Position
As at March 31, 2014

	2014 $	2013 $
Financial assets		
Cash	416,337	411,965
Harmonized sales taxes recoverable	146,609	111,688
Due from Consolidated Revenue Fund	479,826	178,145
Lease inducement receivable (Note 10)	322,225	322,225
	1,364,997	1,024,023
Financial Liabilities		
Accounts payable and accrued liabilities (Note 4)	2,257,023	1,622,827
Accrued employee benefits obligation [Note 5(B)]	2,228,000	2,404,000
Deferred lease inducement (Note 10)	244,354	276,576
	4,729,377	4,303,403
Net financial debt	(3,364,380)	(3,279,380)
Non-financial assets		
Tangible capital assets (Note 3)	837,790	596,115
Accumulated deficit	(2,526,590)	(2,683,265)

Commitments (Note 6)
Measurement uncertainty [Note 2(F)]

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:

Bonnie Lysyk, CPA, CA, LPA
Auditor General

Gary R. Peall, CPA, CA, LPA
Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2014

	2014 Budget (Note 11) $	2014 Actual $	2013 Actual $
Expenses			
Salaries and wages	9,755,400	9,110,028	9,286,283
Employee benefits (Note 5)	2,243,800	2,231,620	2,103,948
Professional and other services	1,714,500	1,866,050	1,642,632
Office rent	1,062,400	1,001,326	989,446
Amortization of capital assets	—	331,506	316,462
Travel and communication	418,800	190,306	308,567
Training and development	378,600	135,301	150,417
Supplies and equipment	377,500	204,337	196,550
Transfer payment: CCAF-FCVI Inc.	73,000	68,480	72,989
Statutory expenses: *Auditor General Act*	242,700	387,582	245,732
Government Advertising Act	30,000	14,475	8,625
Statutory services	130,000	50,034	24,578
Total expenses (Notes 8 and 9)	16,426,700	15,591,045	15,346,229
Revenue			
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	16,426,700	16,426,700	16,224,100
Excess of revenue over expenses		835,655	877,871
Less: returned to the Province [Note 2(B)]		678,980	1,000,115
Net operations surplus (deficiency)		156,675	(122,244)
Accumulated deficit, beginning of year		(2,683,265)	(2,561,021)
Accumulated deficit, end of year		(2,526,590)	(2,683,265)

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows
For the Year Ended March 31, 2014

	2014 $	2013 $
Operating transactions		
Net operations surplus (deficiency)	156,675	(122,244)
Amortization of capital assets	331,506	316,462
Accrued employee benefits expense	85,000	181,000
	573,181	375,218
Changes in non-cash working capital		
Decrease (increase) in harmonized sales taxes recoverable	(34,921)	10,916
Decrease (increase) in due from Consolidated Revenue Fund	(301,681)	59,171
Increase in accounts payable and accrued liabilities	373,196	26,786
Decrease in deferred lease inducement	(32,222)	(32,223)
	4,372	64,650
Cash provided by operating transactions	577,553	439,868
Capital transactions		
Purchase of tangible capital assets	(573,181)	(318,598)
Increase in cash	4,372	121,270
Cash, beginning of year	411,965	290,695
Cash, end of year	416,337	411,965

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General, through the Office of the Auditor General of Ontario (the Office), conducts independent audits of government programs, of institutions in the broader public sector that receive government grants, and of the fairness of the financial statements of the Province and numerous agencies of the Crown. In doing so, the Office promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Office is required to review specified types of advertising, printed matter or reviewable messag[illegible] proposed by government offices to determine whether they meet the standards required by the Act.

Under both Acts, the Auditor General reports directly to the Legislative Assembly.

As required by the *Fiscal Transparency and Accountability Act, 2004*, in an election year the Office is also required to report on the reasonableness of a Pre-Election Report prepared by the Ministry of Finance.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian public sector accounting standards. The significant accounting policies are as follows:

(A) ACCRUAL BASIS

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(B) VOTED APPROPRIATIONS

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the voted appropriation is prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of tangible capital assets, the deferral and amortization of the lease inducement and the recognition of employee benefits expenses earned to date but that will be funded from future appropriations.

The voted appropriation for statutory expenses is intended to cover the salary of the Auditor General as well as the costs of any expert advice or assistance required to help the Office meet its responsibilities under the *Government Advertising Act* and the *Fiscal Transparency and Accountability Act*, or to conduct special assignments under Section 17 of the *Auditor General Act*.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

2. Summary of Significant Accounting Policies (Continued)

(C) TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at historical cost less accumulated amortization. Amortization of tangible capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	5 years
Leasehold improvements	The remaining term of the lease

(D) FINANCIAL INSTRUMENTS

The Office's financial assets and financial liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value.
- Due from Consolidated Revenue Fund is recorded at cost.
- Accounts payable and accrued liabilities are recorded at cost.
- Accrued employee benefits obligation is recorded at cost based on the entitlements earned by employees up to March 31, 2014. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made as it is not expected that there would be a significant difference from the recorded amount.

It is management's opinion that the Office is not exposed to any interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

(E) DEFERRED LEASE INDUCEMENT

The deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011.

(F) MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Items requiring the use of significant estimates include: useful life of tangible capital assets and accrued employee benefits obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

3. Tangible Capital Assets

	Computer hardware $	Computer software $	Furniture and fixtures $	Leasehold improvements $	2014 Total $
Cost					
Balance, beginning of year	678,777	396,107	146,025	163,341	1,384,250
Additions	195,446	8,481	95,257	273,997	573,181
Write-off of fully amortized assets	(163,137)	(67,912)	(21,400)	—	(252,449)
Balance, end of year	711,086	336,676	219,882	437,338	1,704,982
Accumulated amortization					
Balance, beginning of year	401,217	259,341	107,739	19,838	788,135
Amortization	186,740	80,720	30,038	34,008	331,506
Write-off of fully amortized assets	(163,137)	(67,912)	(21,400)	—	(252,449)
Balance, end of year	424,820	272,149	116,377	53,846	867,192
Net Book Value, March 31, 2014	286,266	64,527	103,505	383,492	837,790

	Computer hardware $	Computer software $	Furniture and fixtures $	Leasehold improvements $	2013 Total $
Cost					
Balance, beginning of year	687,370	352,985	211,914	349,823	1,602,092
Additions	165,520	98,564	5,128	49,386	318,598
Write-off of fully amortized assets	(174,113)	(55,442)	(71,017)	(235,868)	(536,440)
Balance, end of year	678,777	396,107	146,025	163,341	1,384,250
Accumulated amortization					
Balance, beginning of year	403,848	210,495	152,204	241,566	1,008,113
Amortization	171,482	104,288	26,552	14,140	316,462
Write-off of fully amortized assets	(174,113)	(55,442)	(71,017)	(235,868)	(536,440)
Balance, end of year	401,217	259,341	107,739	19,838	788,135
Net Book Value, March 31, 2013	277,560	136,766	38,286	143,503	596,115

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

4. Accounts Payable and Accrued Liabilities

	2014 $	2013 $
Accounts payable	525,600	270,967
Accrued salaries and benefits	538,423	419,860
Accrued severance, vacation and other credits	1,193,000	932,000
	2,257,023	1,622,827

Accounts payable relates largely to normal business transactions with third-party vendors and is subject to standard commercial terms. Accruals for salaries and benefits and severance, vacation and other credits are recorded based on employment arrangements and legislated entitlements.

5. Obligation for Employee Future Benefits

Although the Office's employees are not members of the Ontario Public Service, under provisions in the *Auditor General Act*, the Office's employees are entitled to the same benefits as Ontario Public Service employees. The future liability for benefits earned by the Office's employees is included in the estimated liability for all provincial employees that have earned these benefits and is recognized in the Province's consolidated financial statements. In the Office's financial statements, these benefits are accounted for as follows:

(A) PENSION BENEFITS

The Office's employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Office's annual payments to the fund. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Office. The Office's required annual payment of $742,024 (2013 - $754,442), is included in employee benefits expense in the Statement of Operations and Accumulated Deficit.

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The costs of legislated severance, compensated absences and unused vacation entitlements earned by employees during the year amounted to $291,000 (2013 – $261,000) and are included in employee benefits in the Statement of Operations and Accumulated Deficit. The total liability for these costs is reflected in the accrued employee benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities, as follows:

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

5. Obligation for Future Employee Benefits (Continued)

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

	2014 $	2013 $
Total liability for severance, vacation and MCO credits	3,421,000	3,336,000
Less: Due within one year and included in accounts payable and accrued liabilities	1,193,000	932,000
Accrued employee benefits obligation	2,228,000	2,404,000

(C) OTHER NON-PENSION POST-EMPLOYMENT BENEFITS

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

6. Commitments

The Office has an operating lease to rent premises which expires on October 31, 2021. The minimum rental commitment for the remaining term of the lease is as follows:

	$
2014–15	495,900
2015–16	501,300
2016–17	508,800
2017–18	514,200
2018-19	521,700
2019–20 and beyond	1,376,100

The Office is also committed to pay its proportionate share of realty taxes and operating expenses for the premises amounting to approximately $546,000 during 2014 (2013 – $506,000).

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

7. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of the salary and benefits paid to all Ontario public-sector employees earning an annual salary in excess of $100,000. This disclosure for the 2013 calendar year is as follows:

Name	Position	Salary $	Taxable benefits $
McCarter, Jim	Auditor General	245,732	10,365
Peall, Gary	Deputy Auditor General	193,094	254
Bell, Laura	Director	125,179	194
Chagani, Gus	Director	125,179	194
Chiu, Rudolph	Director	139,934	207
Fitzmaurice, Gerard	Director	139,934	207
Gotsis, Vanna	Director	124,245	181
Klein, Susan	Director	145,137	216
Mazzone, Vince	Director	142,913	207
McDowell, John	Director	139,934	207
Pelow, William	Director	124,245	181
Allan, Walter	Audit Manager	115,624	168
Carello, Teresa	Audit Manager	115,624	168
Chan, Sandy	Audit Manager	113,214	168
Cho, Kim	Audit Manager	104,657	166
Cumbo, Wendy	Audit Manager	105,986	168
Herberg, Naomi	Audit Manager	113,112	168
MacNeil, Richard	Audit Manager	113,214	168
Rogers, Fraser	Audit Manager	113,214	168
Stavropoulos, Nick	Audit Manager	113,214	168
Tsikritsis, Emanuel	Audit Manager	113,214	168
Yip, Gigi	Audit Manager	107,922	168
Young, Denise	Audit Manager	113,214	168
Pedias, Christine	Manager, Corporate Communications and Government Advertising Review	100,856	160
Boer, Johannes	Audit Supervisor	103,632	158
Bove, Tino	Audit Supervisor	103,656	158
Chatzidimos, Tom	Audit Supervisor	100,256	156
Tepelenas, Ellen	Audit Supervisor	103,656	158
Wanchuk, Brian	Audit Supervisor	103,656	158

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

8. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the preparation of the Estimates submitted for approval to the Board of Internal Economy, under which purchases of computers and software are expensed in the year of acquisition rather than being capitalized and amortized over their useful lives. Volume 1 also excludes the accrued obligation for employee future benefits and deferred lease inducement recognized in these financial statements. A reconciliation of total expenses reported in Volume 1 to the total expenses reported in these financial statements is as follows:

	2014 $	2013 $
Total expenses per Public Accounts Volume 1	15,779,943	15,199,588
purchase of capital assets	(573,181)	(318,598)
amortization of capital assets	331,506	316,462
change in accrued future employee benefit costs	85,000	181,000
amortization of deferred lease inducement	(32,223)	(32,223)
	(188,898)	146,641
Total expenses per the Statement of Operations and Accumulated Deficit	15,591,045	15,346,229

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

9. Expenses by Activity

	2014				
	Salaries and benefits	Other operating expenses	Statutory expenses	Total	%
Value for money and special audits	7,916,470	2,079,530	363,027	10,359,027	66.4
Financial statement audits	3,334,444	1,697,030	55,210	5,086,684	32.6
Government advertising	90,734	20,746	33,854	145,334	1.0
	11,341,648	3,797,306	452,091	15,591,045	100.0
%	72.7	24.4	2.9	100.0	

	2013				
	Salaries and benefits	Other operating expenses	Statutory expenses	Total	%
Value for money and special audits	7,699,796	2,044,794	227,785	9,972,375	65.0
Financial statement audits	3,565,142	1,604,031	30,238	5,199,411	33.9
Government advertising	125,293	28,238	20,912	174,443	1.1
	11,390,231	3,677,063	278,935	15,346,229	100.0
%	74.2	24.0	1.8	100.0	

Expenses have been allocated to the Office's three (2013 – three) main activities based primarily on the hours charged to each activity as recorded by staff in the Office's time accounting system, including administrative time and overhead costs that could not otherwise be identified with a specific activity. Expenses incurred for only one activity, such as most travel costs and professional services, are allocated to that activity based on actual billings.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2014

10. Deferred Lease Inducement and Receivable

As part of the lease arrangements for its office premises, the Office negotiated a lease inducement of $322,225 to be applied to future accommodation costs. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011.

11. Budgeted Figures

Budgeted figures were approved by the Board of Internal Economy and were prepared on a modified cash basis of accounting for presentation in Volume 1 of the Public Accounts of Ontario. This differs from Public Sector Accounting Standards, as discussed in Note 8.

Exhibit 1

Agencies of the Crown

1. Agencies whose accounts are audited by the Auditor General

Agricorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology
Chief Electoral Officer, *Election Finances Act*
Election Fees and Expenses, *Election Act*
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans, Wheat and Canola
Investor Education Fund, Ontario Securities Commission
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Children's Lawyer
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Ombudsman
Ontario Clean Water Agency (December 31)*
Ontario Educational Communications Authority
Ontario Electricity Financial Corporation
Ontario Energy Board
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Trust
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Mortgage and Housing Corporation
Ontario Northland Transportation Commission
Ontario Place Corporation (December 31)*
Ontario Racing Commission
Ontario Securities Commission
Pension Benefits Guarantee Fund, Financial Services Commission of Ontario
Province of Ontario Council for the Arts
Provincial Advocate for Children and Youth
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario

2. Agencies whose accounts are audited by another auditor under the direction of the Auditor General

Motor Vehicle Accident Claims Fund
Niagara Parks Commission (October 31)*
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)*

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* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

Exhibit 1

Exhibit 2

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required

Agricultural Research Institute of Ontario
Board of Funeral Services
Central East Local Health Integration Network
Central Local Health Integration Network
Central West Local Health Integration Network
Champlain Local Health Integration Network
Deposit Insurance Corporation of Ontario (December 31)*
Education Quality and Accountability Office
eHealth Ontario
Erie St. Clair Local Health Integration Network
Forest Renewal Trust
Hamilton Niagara Haldimand Brant Local Health Integration Network
HealthForceOntario Marketing and Recruitment Agency
Higher Education Quality Council of Ontario
Human Rights Legal Support Centre
Hydro One Inc. (December 31)*
Independent Electricity System Operator (December 31)*
McMichael Canadian Art Collection
Metrolinx
Metropolitan Toronto Convention Centre Corporation
Mississauga Halton Local Health Integration Network
Municipal Property Assessment Corporation (December 31)*
North East Local Health Integration Network
North Simcoe Muskoka Local Health Integration Network
North West Local Health Integration Network
Ontario Capital Growth Corporation
Ontario French-language Educational Communications Authority
Ontario Health Quality Council
Ontario Infrastructure and Lands Corporation
Ontario Lottery and Gaming Corporation
Ontario Pension Board (December 31)*
Ontario Power Authority (December 31)*
Ontario Power Generation Inc. (December 31)*
Ontario Tourism Marketing Partnership Corporation
Ontario Trillium Foundation
Ottawa Convention Centre Corporation
Owen Sound Transportation Company Limited
Public Health Ontario
Royal Ontario Museum
Science North
South East Local Health Integration Network
South West Local Health Integration Network
Toronto Central Local Health Integration Network
Toronto Islands Residential Community Trust Corporation
Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (TO2015)
Toronto Waterfront Revitalization Corporation
Trillium Gift of Life Network
Walkerton Clean Water Centre
Waterloo Wellington Local Health Integration Network

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* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

Exhibit 3

Organizations in the Broader Public Sector

Broader-public-sector organizations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required*

PUBLIC HOSPITALS (MINISTRY OF HEALTH AND LONG-TERM CARE)

Alexandra Hospital Ingersoll
Alexandra Marine & General Hospital
Almonte General Hospital
Anson General Hospital
Arnprior Regional Health
Atikokan General Hospital
Baycrest Centre for Geriatric Care
Bingham Memorial Hospital
Blind River District Health Centre
Bluewater Health
Brant Community Healthcare System
Bridgepoint Hospital
Brockville General Hospital
Bruyère Continuing Care Inc.
Cambridge Memorial Hospital
Campbellford Memorial Hospital
Carleton Place and District Memorial Hospital
Casey House Hospice
Chatham-Kent Health Alliance
Children's Hospital of Eastern Ontario
Clinton Public Hospital
Collingwood General and Marine Hospital
Cornwall Community Hospital
Deep River and District Hospital Corporation
Dryden Regional Health Centre
Englehart and District Hospital Inc.
Espanola General Hospital
Four Counties Health Services
Georgian Bay General Hospital
Geraldton District Hospital
Grand River Hospital
Grey Bruce Health Services
Groves Memorial Community Hospital
Guelph General Hospital
Haldimand War Memorial Hospital
Haliburton Highlands Health Services Corporation
Halton Healthcare Services Corporation
Hamilton Health Sciences Corporation
Hanover & District Hospital
Headwaters Health Care Centre
Health Sciences North
Holland Bloorview Kids Rehabilitation Hospital
Hôpital Général de Hawkesbury and District General Hospital Inc.
Hôpital Glengarry Memorial Hospital
Hôpital Montfort
Hôpital Notre Dame Hospital (Hearst)
Hornepayne Community Hospital
Hospital for Sick Children
Hôtel-Dieu Grace Healthcare
Hôtel-Dieu Hospital, Cornwall
Humber River Regional Hospital
Joseph Brant Hospital
Kemptville District Hospital
Kingston General Hospital
Kirkland and District Hospital
Lady Dunn Health Centre
Lady Minto Hospital at Cochrane

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* This exhibit only includes the more financially significant organizations in the broader public sector.

Exhibit 3

Lake of the Woods District Hospital
Lakeridge Health
Leamington District Memorial Hospital
Lennox and Addington County General Hospital
Listowel Memorial Hospital
London Health Sciences Centre
Mackenzie Health
Manitoulin Health Centre
Manitouwadge General Hospital
Markham Stouffville Hospital
Mattawa General Hospital
McCausland Hospital
Mount Sinai Hospital
Muskoka Algonquin Healthcare
Niagara Health System
Nipigon District Memorial Hospital
Norfolk General Hospital
North Bay Regional Health Centre
North Wellington Health Care Corporation
North York General Hospital
Northumberland Hills Hospital
Orillia Soldiers' Memorial Hospital
Ottawa Hospital
Pembroke Regional Hospital Inc.
Perth and Smiths Falls District Hospital
Peterborough Regional Health Centre
Providence Care Centre (Kingston)
Providence Healthcare
Queensway-Carleton Hospital
Quinte Healthcare Corporation
Red Lake Margaret Cochenour Memorial Hospital Corporation
Religious Hospitallers of St. Joseph of the Hôtel Dieu of Kingston
Religious Hospitallers of St. Joseph of the Hotel Dieu of St. Catharines
Renfrew Victoria Hospital
Riverside Health Care Facilities Inc.
Ross Memorial Hospital
Rouge Valley Health System
Royal Victoria Regional Health Centre
Runnymede Healthcare Centre
Salvation Army Toronto Grace Health Centre
Sault Area Hospital
Scarborough Hospital
Seaforth Community Hospital
Sensenbrenner Hospital
Services de santé de Chapleau Health Services
Sioux Lookout Meno-Ya-Win Health Centre
Smooth Rock Falls Hospital
South Bruce Grey Health Centre
South Huron Hospital Association
Southlake Regional Health Centre
St. Francis Memorial Hospital
St. Joseph's Care Group
St. Joseph's Continuing Care Centre of Sudbury
St. Joseph's General Hospital, Elliot Lake
St. Joseph's Health Care, London
St. Joseph's Health Centre (Guelph)
St. Joseph's Health Centre (Toronto)
St. Joseph's Healthcare Hamilton
St. Mary's General Hospital
St. Mary's Memorial Hospital
St. Michael's Hospital
St. Thomas - Elgin General Hospital
Stevenson Memorial Hospital
Stratford General Hospital
Strathroy Middlesex General Hospital
Sunnybrook Health Sciences Centre
Temiskaming Hospital
Thunder Bay Regional Health Sciences Centre
Tillsonburg District Memorial Hospital
Timmins and District Hospital
Toronto East General Hospital
Trillium Health Partners
University Health Network
University of Ottawa Heart Institute
Weeneebayko Area Health Authority
West Haldimand General Hospital
West Nipissing General Hospital
West Park Healthcare Centre
West Parry Sound Health Centre
William Osler Health System
Wilson Memorial General Hospital
Winchester District Memorial Hospital
Windsor Regional Hospital
Wingham and District Hospital
Women's College Hospital
Woodstock General Hospital Trust

SPECIALTY PSYCHIATRIC HOSPITALS (MINISTRY OF HEALTH AND LONG-TERM CARE)

Centre for Addiction and Mental Health
Ontario Shores Centre for Mental Health Sciences
Royal Ottawa Health Care Group
Waypoint Centre for Mental Health Care

CHILDREN'S AID SOCIETIES (MINISTRY OF CHILDREN AND YOUTH SERVICES)

Akwesasne Child and Family Services
Anishinaabe Abinoojii Family Services
Bruce Grey Child and Family Services
Catholic Children's Aid Society of Hamilton
Catholic Children's Aid Society of Toronto
Chatham-Kent Children's Services
Children and Family Services for York Region
Children's Aid Society of Algoma
Children's Aid Society of Brant
Children's Aid Society of Haldimand and Norfolk
Children's Aid Society of Hamilton
Children's Aid Society of Kawartha-Haliburton
Children's Aid Society of London and Middlesex
Children's Aid Society of the City of Guelph & the County of Wellington
Children's Aid Society of the Niagara Region
Children's Aid Society of the United Counties of Stormont-Dundas-Glengarry
Children's Aid Society of Thunder Bay
Children's Aid Society of Nipissing and Parry Sound
Children's Aid Society of Ottawa
Children's Aid Society of the County of Renfrew
Children's Aid Society of the County of Simcoe
Children's Aid Society of the District of Sudbury and Manitoulin
Children's Aid Society of the Region of Peel
Children's Aid Society of the Regional Municipality of Halton
Children's Aid Society of the Regional Municipality of Waterloo
Children's Aid Society of Toronto
Dilico Anishinabek Family Care
Dufferin Child and Family Services
Durham Region Children's Aid Society
Family & Children's Services of St. Thomas and Elgin
Family & Children's Services of Lanark, Leeds & Grenville
Family and Children's Services of Frontenac, Lennox and Addington
Family, Youth and Child Services of Muskoka
Highland Shores Children's Aid Society
Huron-Perth Children's Aid Society
Jewish Family and Child Service of Greater Toronto
Kenora Rainy River Districts Child and Family Services
Native Child and Family Services of Toronto
North Eastern Ontario Family and Children's Services
Payukotayno James and Hudson Bay Family Services
Sarnia-Lambton Children's Aid Society
The Children's Aid Society of Oxford County
Tikinagan Child and Family Services
VALORIS pour enfants et adultes de Prescott-Russell
Weechi-it-te-win Family Services
Windsor-Essex Children's Aid Society

COMMUNITY CARE ACCESS CENTRES (MINISTRY OF HEALTH AND LONG-TERM CARE)

Central Community Care Access Centre
Central East Community Care Access Centre
Central West Community Care Access Centre
Champlain Community Care Access Centre
Erie St. Clair Community Care Access Centre
Hamilton Niagara Haldimand Brant Community Care Access Centre
Mississauga Halton Community Care Access Centre
North East Community Care Access Centre
North Simcoe Muskoka Community Care Access Centre
North West Community Care Access Centre
South East Community Care Access Centre
South West Community Care Access Centre
Toronto Central Community Care Access Centre
Waterloo Wellington Community Care Access Centre

SCHOOL BOARDS (MINISTRY OF EDUCATION)

Algoma District School Board
Algonquin and Lakeshore Catholic District School Board
Avon Maitland District School Board
Bloorview MacMillan School Authority
Bluewater District School Board
Brant Haldimand Norfolk Catholic District School Board
Bruce-Grey Catholic District School Board
Campbell Children's School Authority
Catholic District School Board of Eastern Ontario
Conseil des écoles publiques de l'Est de l'Ontario
Conseil scolaire catholique Providence
Conseil scolaire de district catholique Centre-Sud
Conseil scolaire de district catholique de l'Est ontarien
Conseil scolaire de district catholique des Aurores boréales
Conseil scolaire de district catholique des Grandes Rivières
Conseil scolaire de district catholique du Centre-Est de l'Ontario
Conseil scolaire de district catholique du Nouvel-Ontario
Conseil scolaire de district catholique Franco-Nord
Conseil scolaire de district du Grand Nord de l'Ontario
Conseil scolaire de district du Nord-Est de l'Ontario
Conseil scolaire Viamonde
District School Board of Niagara
District School Board Ontario North East
Dufferin-Peel Catholic District School Board
Durham Catholic District School Board
Durham District School Board
Grand Erie District School Board
Greater Essex County District School Board
Halton Catholic District School Board
Halton District School Board
Hamilton-Wentworth Catholic District School Board
Hamilton-Wentworth District School Board
Hastings and Prince Edward District School Board
Huron-Perth Catholic District School Board
Huron-Superior Catholic District School Board
James Bay Lowlands Secondary School Board
John McGivney Children's Centre School Authority
Kawartha Pine Ridge District School Board
Keewatin-Patricia District School Board
Kenora Catholic District School Board
KidsAbility School Authority
Lakehead District School Board
Lambton Kent District School Board
Limestone District School Board
London District Catholic School Board
Moose Factory Island District School Area Board
Moosonee District School Area Board
Near North District School Board
Niagara Catholic District School Board
Niagara Peninsula Children's Centre School Authority
Nipissing-Parry Sound Catholic District School Board
Northeastern Catholic District School Board
Northwest Catholic District School Board
Ottawa Catholic District School Board
Ottawa Children's Treatment Centre School Authority
Ottawa-Carleton District School Board
Peel District School Board
Penetanguishene Protestant Separate School Board
Peterborough Victoria Northumberland and Clarington Catholic District School Board
Rainbow District School Board
Rainy River District School Board
Renfrew County Catholic District School Board
Renfrew County District School Board
Simcoe County District School Board
Simcoe Muskoka Catholic District School Board
St. Clair Catholic District School Board
Sudbury Catholic District School Board
Superior North Catholic District School Board
Superior-Greenstone District School Board
Thames Valley District School Board
Thunder Bay Catholic District School Board
Toronto Catholic District School Board

Toronto District School Board
Trillium Lakelands District School Board
Upper Canada District School Board
Upper Grand District School Board
Waterloo Catholic District School Board
Waterloo Region District School Board
Wellington Catholic District School Board
Windsor-Essex Catholic District School Board
York Catholic District School Board
York Region District School Board

COLLEGES (MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES)

Algonquin College of Applied Arts and Technology
Cambrian College of Applied Arts and Technology
Canadore College of Applied Arts and Technology
Centennial College of Applied Arts and Technology
Collège Boréal d'arts appliqués et de technologie
Collège d'arts appliqués et de technologie La Cité collégiale
Conestoga College Institute of Technology and Advanced Learning
Confederation College of Applied Arts and Technology
Durham College of Applied Arts and Technology
Fanshawe College of Applied Arts and Technology
George Brown College of Applied Arts and Technology
Georgian College of Applied Arts and Technology
Humber College Institute of Technology and Advanced Learning
Lambton College of Applied Arts and Technology
Loyalist College of Applied Arts and Technology
Mohawk College of Applied Arts and Technology
Niagara College of Applied Arts and Technology
Northern College of Applied Arts and Technology
Sault College of Applied Arts and Technology
Seneca College of Applied Arts and Technology
Sheridan College Institute of Technology and Advanced Learning
Sir Sandford Fleming College of Applied Arts and Technology
St. Clair College of Applied Arts and Technology
St. Lawrence College of Applied Arts and Technology

Exhibit 4

Treasury Board Orders

Under subsection 12(2)(e) of the *Auditor General Act*, the Auditor General is required to annually report all orders of the Treasury Board made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended. These are outlined in the following table. Although ministries may track expenditures related to these orders in more detail by creating accounts at the sub-vote and item level, this schedule summarizes such expenditures at the vote and item level.

Ministry	Date of Order	Authorized ($)	Expended ($)
Aboriginal Affairs	Jun 27, 2013	2,400	10
	Nov 13, 2013	684,200	—
	Mar 4, 2014	12,038,000	11,634,748
	Apr 1, 2014	224,000	133,969
		12,948,600	**11,768,727**
Agriculture, Food and Rural Affairs	Jul 15, 2013	8,500,000	—
	Sep 9, 2013	129,278,500	70,304,076
	Feb 19, 2014	14,800,000	9,467,605
	Mar 4, 2014	6,500,000	4,383,069
		159,078,500	**84,154,750**
Attorney General	Jan 14, 2014	19,000,000	16,929,047
	Feb 10, 2014	1,645,200	273,119
	Mar 4, 2014	15,162,300	13,508,891
	Mar 4, 2014	2,037,700	2,037,700
	Apr 1, 2014	1,730,700	285,700
		39,575,900	**33,034,457**
Cabinet Office	Nov 13, 2013	**1,000,000**	**—**
Children and Youth Services	Jul 15, 2013	3,000,000	—
	Jan 8, 2014	3,061,000	—
	Jan 14, 2014	2,400,000	1,423,261
	Mar 20, 2014	6,300,000	—
		14,761,000	**1,423,261**
Citizenship and Immigration	Sep 9, 2013	6,240,000	2,861,352
	Nov 26, 2013	600,000	—
	Mar 28, 2014	1,005,900	760,174
	Apr 1, 2014	245,400	—
		8,091,300	**3,621,526**

Ministry	Date of Order	Authorized ($)	Expended ($)
Community and Social Services	Oct 8, 2013	19,137,100	19,137,100
	Mar 17, 2014	2,700,000	406,621
	Apr 1, 2014	32,400,000	22,603,324
		54,237,100	**42,147,045**
Community Safety and Correctional Services	Mar 4, 2014	26,217,400	24,211,089
	Apr 15, 2014	1,820,000	1,260,000
		28,037,400	**25,471,089**
Consumer Services	Mar 27, 2014	**1,973,200**	**424,183**
Economic Development and Innovation	Aug 8, 2013	109,000	–
	Sep 9, 2013	5,000,000	–
	Oct 22, 2013	27,000,000	–
	Feb 27, 2014	50,000	–
	Mar 27, 2014	960,000	–
	Mar 27, 2014	388,500	–
		33,507,500	**–**
Education	Aug 13, 2013	81,200	–
	Sep 9, 2013	450,000	–
	Oct 22, 2013	6,733,600	3,147,941
	Apr 1, 2014	2,425,000	1,417,876
		9,689,800	**4,565,817**
Energy	Mar 4, 2014	**538,600**	**264,899**
Environment	Apr 1, 2014	**13,180,300**	**13,037,693**
Finance	Sep 9, 2013	5,000,000	–
	Oct 8, 2013	42,000,000	–
	Nov 19, 2013	10,300,000	10,300,000
	Feb 4, 2014	170,600	–
	Feb 4, 2014	168,453,800	–
	Feb 14, 2014	2,339,000	1,408,592
	Mar 4, 2014	701,537,400	–
	Mar 4, 2014	143,731,200	–
	Mar 27, 2014	4,137,800	–
	Jul 22, 2014	407,000,000	407,000,000
		1,484,669,800	**418,708,592**
Government Services	Oct 31, 2013	2,500,000	1,012,154
	Dec 3, 2013	2,800,000	–
	Mar 6, 2014	5,331,300	5,323,685
	Mar 4, 2014	6,329,300	5,037,237
		16,960,600	**11,373,076**

Exhibit 4

Ministry	Date of Order	Authorized ($)	Expended ($)
Health and Long-Term Care	Jan 8, 2014	1,500,000	–
	Jan 31, 2014	11,726,500	9,105,743
	Feb 4, 2014	1,517,496,000	1,496,486,831
	Mar 4, 2014	6,019,000	–
	Mar 27, 2014	620,400	–
	Apr 1, 2014	233,050,600	135,755,456
		1,770,412,500	**1,641,348,030**
Infrastructure	Mar 4, 2014	18,057,000	–
	Mar 27, 2014	2,450,600	–
	Apr 15, 2014	2,000,000	–
		22,507,600	**–**
Labour	Feb 11, 2014	**845,000**	**14,927**
Lieutenant Governor	Apr 1, 2014	**40,400**	**25,381**
Municipal Affairs and Housing	Sep 23, 2013	18,000,000	17,332,563
	Nov 13, 2013	3,250,000	300,000
	Mar 4, 2014	190,000,000	185,827,775
	Apr 1, 2014	3,850,000	3,406,787
		215,100,000	**206,867,125**
Natural Resources	Jul 15, 2013	19,105,000	10,775,671
	Aug 13, 2013	26,200	–
	Sep 9, 2013	32,000,000	22,712,278
	Dec 10, 2013	2,357,200	1,173,986
	Mar 25, 2014	637,900	–
	Apr 1, 2014	15,426,800	3,766,951
		69,553,100	**38,428,886**
Northern Development and Mines	Jun 11, 2013	75,000,000	62,288,779
	Mar 4, 2014	24,667,000	18,880,307
	Apr 1, 2014	5,267,000	3,795,195
		104,934,000	**84,964,281**
Tourism, Culture and Sport	Jun 11, 2013	7,280,000	–
	Jun 11, 2013	1,185,000	–
	Jun 11, 2013	3,250,000	3,249,000
	Sep 9, 2013	4,030,000	3,024,511
	Mar 4, 2014	162,211,200	162,211,141
	Mar 25, 2014	500,000	–
	Mar 27, 2014	3,960,900	3,960,900
	Mar 28, 2014	2,000,000	2,000,000
	Apr 1, 2014	875,000	831,986
	Apr 1, 2014	4,400,000	4,319,385
		189,692,100	**179,596,923**

Ministry	Date of Order	Authorized ($)	Expended ($)
Training, Colleges and Universities	Jul 15, 2013	345,400	–
	Mar 4, 2014	27,830,100	–
	Mar 24, 2014	2,340,000	1,700,000
	Mar 27, 2014	4,517,300	88,125
	Apr 8, 2014	683,000	–
		35,715,800	**1,788,125**
Transportation	Jan 30, 2014	220,000	–
	Mar 4, 2014	27,200,000	22,394,979
	Mar 4, 2014	5,400,000	1,560,386
	Mar 27, 2014	553,000	–
	Mar 31, 2014	11,300,000	–
		44,673,000	**23,955,365**
Total Treasury Board Orders		**4,331,723,100**	**2,826,984,158**